

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Tea Shakthi Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, 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 Shakthi Fund Act, No. 47 of 2000 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

I do not express an opinion of the financial statements of the Fund. Because of the significance of the matters set out in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

The opinion is disclaimed on the financial statements based on the matters set out 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.

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 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process. As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund.

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 Company'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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties;
- Whether the resources of the Fund 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

Noncompliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) A sum of Rs. 43,750,503 each had been amortized per year on the basis of amortizing from the year 2012 within 10 years without specifically identifying the manner of utilizing the treasury grants amounting to Rs. 437,505,030 received by the Tea Shakthi Fund from 1998 to 2004 to start tea factories for fixed assets and operating expenses. and without recognizing them as deferred income on a systematic basis, i.e. on capital or income access as per paragraph 12 of Sri Lanka Accounting Standard 20. Furthermore, evidence was not submitted to audit regarding the assets purchased, constructed, or modernized using the treasury grants, and the value of assets and from which year they were depreciated. Accordingly, it was not possible to confirm the accuracy of the value of Rs. 43,750,503 recognized as deferred income in the financial statements for the year under review.	currently have records on the asset that was purchased/constructed or renovated using provision amounting to Rs. 437.50 million provided by the Treasury to the Tea Shakthi Fund from 1998 to 2004. However, at present, the Fund got only the year in which the relevant assets were depreciated and the relevant details according to the final accounts. I would like to kindly inform you that steps will be taken to disclose the relevant situation through the accounting reports from the financial year 2024.	The manner in which Treasury grants were utilized for fixed assets and operating expenses should be clearly identified and the value of the grants utilized for the purchase/construction/renovation of assets should be amortized and accounted in accordance with Sri Lanka Accounting Standard 20.

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| (b) | Although, amortization of intangible assets should commence once they are ready for use according to paragraph 97 of Sri Lanka Accounting Standards 38, amortization of the computers and software purchased for Rs. 2,600,000 in 2010 had not been carried out even though 9 years had passed since the closing date of the year under review. | It is observed that the relevant software has been purchased by the Tea Shakthi Fund. However, the Fund has not used the software so far. However, after the restructuring of the Tea Shakthi Fund in 2016, the need for such software is not observed for the Tea Shakthi Fund at present. Accordingly, it is observed that this situation has arisen and a decision is scheduled to be taken in this regard in the future. | Intangible assets should be amortized at the occasion they are ready for use in accordance with Sri Lanka Accounting Standards. |
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1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though the period of 03 years, which could be set off against income tax had exceeded, the economic service charges amounting to Rs. 2,790,822 paid for the year of assessment, 2008/2009 had been accounted as a receivable balance even by the end of the year under review.	Since the Tea Shakthi Fund was exempted from income tax in the relevant years, the opportunity to set off against income tax has been lost. Accordingly, a decision is to be taken in this regard in the future.	Action should be taken to write off the economic service charges, for which there is no opportunity of setting off.
(b)	Since an updated fixed assets register of the assets of the Fund had not been submitted to the audit and due to the fact that the tea factories were leased to private parties under the restructuring of the Fund in 2016, the existence of litigation and not having sufficient files with respect to fixed assets in the Fund, the audit could not confirm property, plant and equipment worth Rs.237,673,325 and investment property amounting to Rs. 27,089,735 and the depreciation expenditure for the year under review amounting to Rs. 12,612,507 related to those assets.	Since the fixed assets register of the Tea Shakthi Fund has not been updated, it has not been possible to submit it for audit. I would like to kindly inform you that necessary steps are being taken to rectify the situation.	An updated fixed assets register should be maintained with respect to the fixed assets identified under the correct classifications.
(c)	Although the rent income of the Passara Tea Factory for the year under review was Rs. 6,410,625 as per the agreement, it was recognized as Rs. 7,621,125 in the financial statements and as a result, the rent income for the year under review had been overstated by Rs. 1,234,875.	According to the management agreement entered into with the Passara Factory, a rent income of Rs. 6,386,250 was earned in the year 2019 and that income has been recorded as Rs. 7,621,125 in the financial statements.	Action should be taken to correctly identify the income to be collected as per the agreement and to indicate the income to

- Accordingly, I inform you that steps will be taken to correct it in the financial statements 2025. be collected in the financial statements.
- (d) According to the lease agreement of the Raigam Korala Tea Factory, which had been leased to a private party, the monthly rent is Rs. 8 per one kilo of finished tea produced in the factory, and although it was stated that it should not be less than Rs. 250,000. However, the said rent had not been received since 2016 and the relevant rent income has not been recognized by the Fund in the financial statements. I would like to kindly inform you that necessary steps are being taken to rectify the situation in the upcoming financial statements. The income to be collected as per the terms of the agreement should be accurately recognized and it should be indicated in the financial statements.
- (e) Due to the recognition of interest income of Rs. 4,560,000 received in the year under review as a security deposit payable in the financial statements, the interest income on fixed deposits for the year had been devalued by that amount and the security deposit payable had been overstated. It is kindly informed that the relevant correction will be made in the accounting reports of the year 2025. Action should be taken to correctly adjust the transactions through the ledger accounts.
- (f) Although the balance of the retained earnings of the Fund as per the financial statements at the end of the year under review was a negative value of Rs. 55,013,669, the balance as per the ledger was a negative value of Rs.43,230,024. Accordingly, a difference of Rs. 11,783,645 was observed. I observe that this situation has arisen due to not updating the ledger accounts. I kindly inform you that necessary steps will be taken to rectify the relevant situation through future accounting reports. Action should be taken to prepare financial statements based on the ledger account balances updated up to the closing date of the accounting year.
- (g) The cash book had been debited and the cash book had been credited in the payment of compensation for employees without recognizing the treasury grants amounting to Rs. 5,123,000 received for the payment of employee compensation to the Tea Shakthi Fund on 18 June 2019 in the financial statements as income of the year under review and the related payments as employee compensation expenses. I kindly inform you that the relevant correction will be made in the accounting reports of the year 2025. Action should be taken to account the income and expenditure related to the financial year in the correct ledger accounts and to present them in the financial statements.
- (h) The current account of a project implemented under the Fund with a balance of Rs. 2,171,869 had been closed in the year under review. Since the current account of the relevant project had been identified in the financial statements as an expense to be paid instead of crediting current account of the project in transferring that balance to the Fund, current liabilities and current assets were overstated by that amount. I kindly inform you that the relevant correction will be made in the financial statements of the year 2025. Action should be taken to adjust the transactions correctly through the ledger accounts.

1.5.3 Written Evidence Not Made Available for Audit

Item	Amount (Rs.)	Evidence not Provided	Comments of the Management	Recommendation
(a) Trade and other balances receivable	322,058,151	Balance confirmations, detailed schedules and time analysis	Agree with the observation.	Schedules and time analyses should be submitted along with financial statements.
(b) Trade and other balances payables	234,163,519			
(c) Mature tea plantations	10,002,019	Detailed schedules and fixed assets register	Agree with the observation.	Schedules and time analyses should be submitted along with financial statements.
(d) Immature tea plantations	6,716,358			
(e) Balance of work in progress	1,567,205			

1.6 Noncompliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non compliance	Comments of the Management	Recommendation
Public Enterprises Circular No. 01/2021 dated 16 November 2021	Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days after the end of the accounting year, the financial statements and draft annual reports for the years of 2020 to 2024 had not been submitted to the Auditor General and the financial statements of the year under review were submitted on 01 August 2025. The draft annual report for the year 2019 had not been submitted to the Auditor General even by the date of this report.	Necessary action has been taken to rectify the situation in the future.	As per the provisions of the circular, the draft annual report should be submitted along with the financial statements within the prescribed period.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 65,074,453 and the corresponding deficit for the previous year had been Rs. 69,356,217. Accordingly, a deterioration of Rs. 4,281,764 was observed in the financial result. This deterioration was mainly due to the decrease in other income by Rs. 2,815,484 and the increase in administrative expenses by Rs. 4,408,481.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The withholding tax amounting to Rs. 4,545,276, payable in respect of the assessment year 2002 / 2003 had not been settled even by the end of the year under review.	A decision is due to be taken in this regard in the future.	Prompt action should be taken to pay or settle the outstanding withholding tax.
(b)	The ownership of the lands, where the Horana Fertilizer Warehouse and the Raigam Koraleya Factory operated by the Fund are located, is currently under the relevant Divisional Secretary and the ownership of the lands, where the Elpitiya, Hiniduma and Passara factories are located, is also under the Land Reforms Commission. However, buildings and factories were constructed without legally transferring the ownership of the lands to the Fund.	Action has been taken to construct and transfer those factories based on the written approvals given by the relevant institutions. However, the necessary actions are being taken to legally transfer the lands, where those factories are located.	Relevant action should be taken to transfer the ownership of the lands.