

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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 discussed in the 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

As described in the paragraph 1.5, I was unable to confirm or verify by alternative means, material items included in the statement of financial position, the statement of comprehensive income, statement of changes in equity and statement of cash flows.

As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, the statement of comprehensive income, statement of changes in equity and statement of cash flows.

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 Auditor's Responsibility for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) A decision had been made to amortize over a 10-year period starting from 2012 the capital grant of Rs. 437,505,030 provided by the Treasury to the Tea Shakthi Fund between 1998 and 2004, due to the lack of sufficient evidence to determine the manner in which the funds were utilized for capital assets or operational expenses. Consequently, as there was no verification regarding the value of assets purchased, constructed, or modernized using Treasury grants, During the audit, the accuracy of the amortized value amounting to Rs. 43,750,503, which had been accounted as deferred income during the year under review, could not be satisfactorily verified.	Agreed. Purchases of assets and construction activities of the Tea Shakthi Fund were carried out in the years 2000, 2001, and 2002. However, the Tea Shakthi Fund currently does not possess records indicating which specific assets were purchased /constructed, or modernized using the Rs. 437.50 million allocations provided by the General Treasury.	The manner in which Treasury grants were utilized for fixed assets and operational expenses should be clearly identified, and written evidence of such utilization should be submitted to the audit.
(b) In accordance with Paragraph 97 of Sri Lanka Accounting Standard 38 and Accounting Notes 2.5 to the financial statements, computer software should be amortized over a period of 5 years. However, the computer software purchased and installed in the year 2010 for Rs. 2,600,000 had been presented at cost, without being amortized, up to 31 December 2020.	Agreed.	Action should be taken to amortize in accordance with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Economic Service Charges amounting to Rs. 2,790,822, paid during the assessment year 2008/2009 had been shown as a receivable balance in the financial statements without being written off, despite the expiration of the 03-year period during which they could have been set off against income tax.	Agreed. It is informed that action will be taken to write off the relevant amount in the final accounting reports of 2025.	Action should be taken to write off this amount from the books under the formal approval.
(b)	Since the Fund did not possess an updated fixed asset register, detailed schedules, or reports of Board of Survey or any detailed information as at 31 December 2020 regarding the assets of the Fund, and as it was not possible to verify them through alternative procedures, the audit could not confirm the completeness, accuracy, and physical existence of the Property, Plant, and Equipment valued at Rs. 226,565,308 and Investment Property valued at Rs. 25,585,245 shown in the Statement of Financial Position as at 31 December 2020 and as well as the depreciation of Rs. 12,612,507 relating to those assets for the year under review.	Agreed. Action will be taken to submit the fixed asset registers along with the 2025 financial statements	An updated fixed asset register should be maintained.
(c)	Due to the failure to correctly recognize the annual rent income related to the Passara and Keppetipola tea factories in accordance with the agreements, the rent income for the year under review had been overstated by Rs.2,463,750.	Agreed.	Action should be taken to correctly recognize the income receivable as per the agreement and show it in the financial statements.
(d)	According to the lease agreement of the Raigam Korale Tea Factory, Rs. 8 per kilogram of made tea manufactured in the factory was payable based on quantity of tea in kilograms, subject to a minimum amount of Rs. 250,000. However, the Fund had not recognized any lease income related to the year under review for the Raigam Korale Tea Factory in its financial statements in accordance with the agreement.	Agreed.	Action should be taken to correctly recognize the income receivable as per the conditions of the agreement and show it in the financial statements.
(e)	Differences were observed between the account balances presented in the financial statements at the end of the year under review and the corresponding balances in the trial balance and the respective ledger accounts. Although the retained earnings balance in the financial statements of the Fund at the end of the year was Rs. 55,504,407, the balance according to the trial balance was Rs.	Agreed.	Action should be taken to prepare the financial statements based on the ledger account balances updated up to the end of the financial year.

57,306,167 and the balance in the ledger account was Rs. 43,648,595. Further, the pension benefit liability balance according to the financial statements and the trial balance was Rs. 1,714,336. However, no balance had been indicated in the respective ledger account at the end of the year. The reasons for these differences had not been presented to the audit, and the accuracy of the account balances presented in the financial statements could not be verified in the audit.

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| (f) | Even though 8 bank current accounts with a balance of Rs. 2,171,869 as at 14 June 2019, had been closed and transferred to another current account held by the Fund. However, those balances had been recognized in the financial statements for the year under review as cash and cash equivalents and as a current liability. | Agreed. | Action should be taken to adjust the transactions through the correct ledger accounts. |
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1.5.3 Written Evidences Not Made Available for Audit

	Item	Amount Rs.	Evidence not Provided	Comments of the Management	Recommendation
(a)	Trade and other balances receivable	358,138,297	Detailed schedules and balance confirmations	It is informed that action will be taken to make the necessary adjustments in the 2025 final accounts, upon receiving the recommendations of the committee appointed to submit recommendations regarding the account balance of the Tea Shakthi Fund.	Action should be taken to submit adequate detailed schedules, balance confirmations, valuation reports, and certificates regarding the value of work done which substantiate the account balances presented in the financial statements to the audit along with the financial statements.
(b)	Trade and other balances payables	234,493,519			
(c)	Mature tea plantations	10,002,019	Valuation reports		
(d)	Immature tea plantations	6,716,358			
(e)	work in progress	1,567,205	Certificates regarding the value of work done		

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

Reference to Laws, Rules and Regulations etc	Non- compliance	Comments of the Management	Recommendation
Section 6.6 of the Operational Manual for State-Owned Enterprises, issued with Circular No. 01/2021 dated 16 November 2021.	Even though financial statements and draft Annual Reports should be submitted to the Auditor General within 60 days of the end of the financial year, the financial statements and draft Annual Reports from the year 2021 to 2024 had not been submitted. Further, the financial statements for the year under review had been submitted on 10 November 2025, and the draft Annual Report for the year 2020 had not been submitted to the Auditor General even by 28 February 2026.	Agreed	Financial statements and draft Annual Report should be submitted within the stipulated timeframes.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 110,518,076, and the corresponding surplus in the previous year had been Rs. 65,074,453. Accordingly, an improvement of Rs. 45,443,623 was observed in the financial result. This improvement was mainly due to the increase in revenue of Rs. 10,918,575, an increase in other income of Rs. 9,868,221, an increase in interest income of Rs. 6,504,626, and a reduction in administrative expenses of Rs. 18,151,791.

2.2 Trend Analysis of major Income and Expenditure items

Compared with the preceding year, revenue from leasing of factories increased by 18 percent, interest income from fixed deposits by 213 percent, and other income by 78 percent, while administrative expenses decreased by 35 percent.

2.3 Ratio Analysis

The current ratio for the year under review was 1.6:1, compared to 1.35:1 in the preceding year. This ratio increased because current liabilities grew slightly by 0.2 percent, corresponding to a 17 percent growth in current assets compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Withholding taxes 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.	Agreed.	Immediate measures should be taken to settle the outstanding withholding taxes.
(b)	Even though the ownership of the lands where the Horana fertilizer warehouse and the Raigam Korale factory operated by the Fund are located is currently vested with the respective Divisional Secretaries, and the ownership of the lands where the Elpitiya, Hiniduma, and Passara factories are located falls under the Land Reform Commission, buildings and factories had been constructed without legally transferring the ownership of the land to the Fund.	Agreed. Necessary actions are being taken to legally take over the ownership of the lands.	Expeditious measures should be taken to take over the ownership of the lands