

## Transactions Report of the Tea Shakthi Fund - 2024

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The audit of the operational activities of the Tea Shakthi Fund for the year ended 31 December 2024 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 the provisions of the National Audit Act No.19 of 2018. My comments and observations on the functionality of the Fund which I consider should be reported to Parliament appear in this report in pursuance of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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

In terms of Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16(2) of the said Act, annual financial statements in respect of every auditee entity shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports of those entities within such period as may be provided by rules. In terms of Section 38(1) (d) of the said Act, the Chief Accounting Officer of an auditee entity shall ensure that it is required to prepare annual reports and other financial statements within the required periods and the Chief Accounting Officer shall be responsible to submit the annual reports to Parliament pertaining to the auditee entity.

## 2. Audit Observations

### 2.1 Presentation of Financial Statements

Even though the financial statements of the Fund in terms of the Financial Regulation 877(2) (d) included by the Public Finance Circular No.01/2020 dated 28 August 2020, and Public Enterprises Circular No. 01/2021 dated 16 November 2021 along with the performance report should be submitted to the Auditor General with a copy to Department of Public Finance of General Treasury within 02 months after the end of the accounting year, the financial statements and performance reports from the year 2020 to the end of the year 2024 had not been submitted to the Auditor General.

### 2.2 Existence of assets and liabilities

The details of assets, liabilities, income and expenditure indicated in the financial statements as at 31 December 2019 prepared for the last time by the Fund are mentioned below.

Item	Value (Rs.)
<b>Assets</b>	
Non-Current Assets	384,704,486
Current Assets	345,453,906
<b>Total Assets</b>	<b>730,158,392</b>
Equity	201,250,254

**Liabilities**

Non-Current Liabilities	273,292,456
Current Liabilities	255,615,681
<b>Equity and Total Liabilities</b>	<b>730,158,391</b>
Total Income	117,439,777
Total Expenditure	52,365,324
<b>Profit</b>	<b>65,074,453</b>

**2.3 Functionality of Fund**

Tea Shakthi Fund had 12 factories and Mawarala Estate and Horana Fertilizer warehouse and the management of those had been leased out to the private parties. The Fund had continuously incurred losses since 2011 to 2015 and the equity capital of the Fund was also gradually decreasing. Accordingly, equity capital amounting to Rs. 124.058 million in the year 2012 had become a minus value amounting to Rs.111.65 million in the year 2015. Under the circumstances, the approval had been granted by the Cabinet Decision No. CP/16/1224/726/015-I dated 13 July 2016 to entrust the functions of the Tea Shakthi Fund to the Secretary of Ministry of Plantation Industries and to restructure the Fund. The approval of the Cabinet of Ministers had been granted by the Cabinet Decision under the heading of, “Purchasing of the shares back to Tea Shakthi Fund from the shareholders of Tea Shakthi Fund” bearing No. CP/23/0615/616/014 dated 18 April 2023 to take over the relevant share ownership of the Tea Shakthi Fund by paying back the nominal value of Rs.10 per share to the shareholders of Tea Shakthi Fund and to utilize only the earnings of the Tea Shakthi Fund for that purpose. The progress of the Fund for the year 2024 is stated below.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As per the Cabinet Decision on the heading of, “Repurchase of Shares from Shareholders of Tea Shakthi Fund to Tea Shakthi Fund” bearing No. CP/23/0615/616/014 dated 18 April 2023, the value of shares repurchased by the Fund as at 31 December 2024 was Rs. 22,615,890. Accordingly, it was observed that the value of shares not purchased by the Fund as at the closing date of the year under review had been Rs. 183,398,260.	Newspaper advertisements have been published on the repurchase of the shares of Tea Shakthi, and the institutions had been informed in writing to make the shareholders of the Tea Shakthi Fund aware about this through Tea Inspectors of the Tea Smallholdings Development Authority and societies of the Lanka Federation of Tea Small Holdings Development Societies.	The Fund should take steps to buy back shares in accordance with the decision of the Cabinet of Ministers.
(b) The unpaid rentals as at 31 December 2024 from the Mawaralawatta and Horana fertilizer warehouses and 12 factories leased out in accordance with	The relevant information has been forwarded to the Attorney General's Department after informing to take legal action	Action should be taken promptly to recover outstanding management fees.

the agreements entered into regarding the leasing out of factories to the Tea Shakthi Fund was Rs. 137,753,918.

required to recover the existed outstanding amounts after taking back Raigamkorale, Gilimale, Mawarala, Gilimale, Kothmale, Walahanduwa, Mahaweli and Mawaralawatte, which had outstanding rentals / management fees, to Tea Shakthi Fund. The rentals /management buyers of other factories where there were outstanding rental / management fees have agreed to pay the outstanding rentals / management fees in installments.

(c) It was also observed that a sum of Rs. 61,040,440 had to be recovered as late fees due to non-payment of rent or management fees as at 31 December 2024 as action should be taken to recover late fees after recalculating under an annual rate of 10 percent on outstanding rent or management fees as per the Cabinet Decision No. CP/24/1984/716/002 dated 29 October 2024.

Parties in other existing lease/management agreements have been notified in writing to pay the applicable late fees.

Action should be taken without delay to recover late fees as per the decision of the Cabinet of Ministers.

(d) The management of the Mawarala estate had been leased out to a private party on 24 April 2017 for a period of 10 years and arrangements had been made to take over the Mawarala Estate from the leaseholder again to the Fund on 15 August 2023 and leasing out again had not been done by the closing date of the year under review. Although it was revealed in the audit query regarding the lease of the factory issued in the year 2021 on the utilization of the land by external parties due to not allotting the land parcel by properly measuring the boundaries within the limit of approximately 100 acres of the said property, activities of clearing boundaries had not been completed even by the end of the year 2024.

There has been a delay in the work of settling the boundaries of the Mawarala estate due to some issues in the plan, the relevant situation has now been resolved and the necessary arrangements have been made to demarcate the boundaries of the land by the Department of Survey. Complaints have been lodged in the Mawarala Police against all unauthorized entry into this land. In addition, a caveat has been obtained by the Kotapola Land Registrar's Office regarding the land.

Action should be taken without delay to survey the Mawarala estate, and to settle the boundaries, and allot the land, and to utilize it by the Fund for productive purposes or to award it to a new leaseholder.

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| (e) | Although the ownership of the lands, where the Horana fertilizer warehouse operated by the Fund and the Raigam Korala Factory 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, buildings and factories were constructed without the transferring the ownership of the lands to the Fund.  | The relevant factories have been constructed with the written approval of the Land Reforms Commission. Accordingly, the necessary steps are currently being taken to transfer the relevant lands to the Tea Shakthi Fund.      | Action should be taken to transfer the ownership of the lands, where the factories are located, to the Fund.   |
| (f) | One case had been filed in the District Court by an external party against the Tea Shakthi Fund, and the Tea Shakthi Fund had filed 10 cases, including 07 cases for the recovery of money, in the District Court.  | Agreed.  | Action should be taken to minimize the costs incurred for resorting to legal proceedings.  |
| (g) | The boundaries of the Tea Shakti lands had not been accurately identified and measured, and legal steps had to be taken to settle the enjoyment of those lands by unauthorized occupants, and it had been an additional burden on the Fund.   | Necessary fundamental activities are being carried out to prevent such situations in the future.   | Action should be taken promptly to accurately measure and settle the properties owned by the Tea Shakti Fund.  |
| (h) | It was confirmed by the letter bearing No. TSF/ACC/Audit-2024-Vol iv submitted to the audit by the Ministry of Plantations and Community Infrastructure that there were no vehicles registered in the name of the Tea Shakthi Fund / registered in the name of the Fund and maintained and operated by other institutions, and according to the information obtained from the Department of Motor Traffic, 17 vehicles had been registered in the name of Tea Shakthi Fund in the Department of Motor Traffic. Accordingly, a controversial situation was observed during the audit regarding the current ownership of the 17 vehicles. | I would like to further inform you that action will be taken in the future to verify the facts in the future based on the information obtained from the Department of Motor Traffic and the information available in the fund. | Information should be obtained from the Department of Motor Traffic regarding these vehicles that are not physically in the possession of the Fund and should take further action accordingly. |