

Tea Shakthi Fund - 2016

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 2016 comprising the statement of financial position as at 31 December 2016 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 , Finance Act No. 38 of 1971 and Tea Shakthi Fund Act, No. 47 of 2000. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the fund. Because of the significance of the matters described 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

I expressed disclaimer of opinion on the matters described in paragraph 1.5 of this 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' stability 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 intend 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 Sub 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 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 scepticism 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 fund'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 fund 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; and
- 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 Standard

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) Paragraph 34 of Sri Lanka Accounting Standards No.16 requires a revaluation of the asset whenever the fair value of a revaluation asset changes materially from its carrying value, or every 3 or 5 years. However the fixed assets of the fund were not revaluated after the year 2006.	Due to the fact that the Tea Shakthi Fund has been continuously running at a loss for the year 2008 to 2016 and also due to the working capital problems of the institution, it is not possible to revaluation the assets according to the accounting standards, but now the relevant work has been handed over to the Government Valuation Department. Accordingly, the assessment reports of some factories have been received by now.	Assets should be revaluation and accounted for on the basis of valuation reports.
(b) According to paragraph 68 of Sri Lanka Accounting Standards 16, the profit or loss on disposal of property plant and equipment must be adjusted to the profit or loss of the financial year. However, in the year under review, the fund owned 04 vehicles with zero carrying value had sold of amounting Rs. 6,761,400 and the profit on the sale was accounted for as	Necessary arrangements have been made to make the relevant correction through the 2017 accounting reports.	The profit or loss arising from the sale and disposal of property plant and equipment should be adjusted according to Sri Lanka Accounting Standards.

trade and other payables under current liabilities in the statement of financial position without adjustment as per aforesaid.

Also, the cost and accumulated depreciation of 05 vehicles, including those 04 vehicles, had not been removed from the fixed assets register and the schedules for financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Thirty Seven vehicles that were not owned by the fund were included in the fund's fixed assets register and financial statements also they were depreciated from 2005 to the end of 2016. Out of which 17 vehicles were fully depreciated and for the remaining 20 vehicles, the depreciation amount was Rs.95,250 in the year under review and accordingly the loss for the year was Rs.95,250 and the debit balance of retained earnings was overestimated by Rs.20,346,301.</p>	<p>The primary objective of setting up the Tea Shakthi Fund is to uplift the small tea estate owners, and for that purpose, to collect tea leaves from the small tea estate societies and supply the leaves to the Tea Shakthi factories and to empower the small tea estate development societies, the small tea estate development societies has purchased these vehicles on time lease facility.</p>	<p>Only assets owned by the fund should be included in the fixed assets register and financial statements.</p>
<p>(b) At 31st March 2010, an advance amount of Rs.8,082,256 was paid to the authority to purchase a land owned by the Urban Development Authority at Pelawatta, Battaramulla for the construction of the Tea Shakthi Fund's head office, but due to non-payment of the total value of the land, the authority seized Rs.7,000,000 at 07th July, 2016 and had been refunded to Shakthi Fund.</p>	<p>Necessary arrangements have been made to make the relevant correction through the final accounts of 2017.</p>	<p>Advance settlement should be properly accounted for.</p>

Nevertheless, the amount of Rs.7,000,000 which was returned without settling the advances paid had been credited to the suspense account and the paid Rs.8,082,256 had been reported as advances receivable. Due to this, the assets and liabilities of the fund were overestimated by Rs.7,000,000.

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| (c) | The bank overdraft of Rs.2,000,000 which was obtained to cover the expenses of Passara Tea Shakthi Factory, was not properly classified in the financial statement and was entered in the suspense account included in trade and other payables under current liabilities. | Necessary arrangements have been made to make the relevant correction through the final accounts of 2017. | In preparation of financial statements should be presented under correct classifications. |
| (d) | The assets and liabilities of the fund had been over calculated by the same amount the fact that the insurance premiums of Rs.5,993,437 paid in the year 2015 for 6 months in the year 2016 was included in the other receivables at the end of the reviewed year without accounting as an expense of the year 2016. | Necessary arrangements have been made to make the relevant correction through the final accounts of 2017. | In preparing the financial statements, Payments carried forward in the previous year should be taken into account. |
| (e) | An advance amount of Rs.28,311,751 had been given to a private company in the year 2001 for the construction of factories in Yatinuvara, Pothupitiya and Bulathkohupitiya of Tea Shakthi Fund. By the end of the year under review, although more than 15 years had passed since the advances had been made, the advances had not been settled or made adequate provisions, and were carried forward as deposits and advances under current assets in the financial statements. | Agree with the observation. | As it has been more than 15 years since advances were given for construction of factories, arrangements should be made to settle the advances or make adequate provision. |

- (f) At the end of the year under review, the outstanding tea stock value of 4 factories was shown as Rs.7,902,517 under current assets in the statement of financial position. The officers responsible for the shortage of tea stock had not been identified and recovered the losses and had not been recognized as losses in the profit and loss account.
- Investigations have been initiated against the responsible officials. They have failed to recover the relevant values due to the fact that the officers have left the service and some officers have died.
- As per 2.2.3 of Public Finance Circular No 01/2020 dated August 28, 2020, full details of damages shall be reported to the Treasury.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Festival Advances and Other Advances (More than 7 years)	903,912	264,733	639,179	The 2017 financial statements will make necessary corrections.	Factory accounts should be updated and financial statements should be prepared.

1.5.4 Document evidence not made available for Audit

Item	Amount	Evidence not available	Comments of the Management	Recommendation
	Rs.			
Machines and Machinery	92,703,191	Board of Survey report	Necessary arrangements have been made to submit detailed supporting documents with the final accounts of 2017.	At the end of the year, the goods should be verified and the reports should be submitted for audit.
Stocks of finished tea and fertilizers	4,387,922	Stock verification report	Necessary arrangements have been made to submit detailed supporting documents with the final accounts of 2017.	At the end of the year stock should be verified and the reports should be submitted for audit.

Trade and other receivable balances	271,543,470	Balance confirmations, detailed schedules and time analyses	Necessary arrangements have been made to submit detailed supporting documents with the final accounts of 2017.	Relevant evidence should be submitted to the audit to ascertain the balances due.
Trade and other payable balances	318,946,968	Balance confirmations, detailed schedules and time analyses	Necessary arrangements have been made to submit detailed supporting documents with the final accounts of 2017.	Evidence of all outstanding balances must be submitted to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) Through the intervention of Small Tea Estate Development Authority and Tea Shakthi Fund, Tea Shakthi Fund had paid Rs. 2,691,326 as lease instalments for 13 vehicles which had been leased to Small Tea Estate Societies in the years 2001 and 2002 and it was shown as a receivable balance in the financial statements and it was carried forward.</p> <p>By the end of the year under review, the fund had not been able to recover this balance. Although these receipts were uncertain, the fund had not made provision for them.</p>	<p>The primary objective of setting up the fund is to uplift the small tea estate owners. For that purpose, to collect tea leaves from small tea plantation societies and supply leaves to tea Shakthi factories and for the empowerment of Small Tea Estate Development Societies, the related lease premiums for vehicles purchased on leasing facilities by Small Tea Estate Development Societies have been borne by the Tea Shakthi Fund in the years 2000 and 2001.</p> <p>This was done with the aim of recovering the lease installments, and then the tea Shakthi fund has not been able to recover the money due to the disruption of the supply of leaves to the tea Shakthi factories by the societies.</p> <p>Thus the relevant balance is brought forward from the year 2002 in the accounts. As these assets are not recoverable in the future, they will be written off.</p>	<p>Since it has not been possible to recover the lease installments paid on behalf of the small tea plantation societies, formal steps should be taken for the balance.</p>

- (b) A financial loss of Rs.1,548,354 in the year 2008 had not been recovered from the responsible parties and it had been accounted under current assets as trade and other receivables for a period of 08 years. Due to the death of the responsible officer for this, it has not been possible to recover the related financial loss. Formal action should be taken regarding this financial loss.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Although there was a sundry creditors balance of Rs.2,957,414 in the statement of financial position from the year 2015, the said creditors had not been identified and settled until the end of the year under review.	Agree with the observation.	Action should be taken to identify creditors and settle those balances.

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) Financial Regulations 396 of the Democratic Socialist Republic of Sri Lanka	Cheques issued but that are not presented for payment i.e. checks beyond the validity period of 06 months should be validated and sent back to the payee. However at the end of the year under review, 11 cheques worth Rs.213,500 which were not presented to the bank and were overdue for 8 months to 26 months had not been dealt with as per the regulation referred to.	The relevant correction has been made in the year 2017.	Action should be taken for over-due cheques not presented to the bank per the reference Financial Regulations

- (b) Section 6.5.1 of Public Enterprise Circular No. PED 12 dated June 02, 2003
- Although the financial statements and draft annual report must be submitted to the Auditor General within 60 days of the end of the accounting year, the financial statements of the reviewed year were submitted on 06th September, 2022 and the draft annual report was not submitted by 18th December, 2023.
- In the future, necessary arrangements will be made to correct the issue.
- The draft annual report of the relevant year should be submitted along with the financial statements.
- (c) Paragraph 02 of Director General of Treasury Operations Circular No. 3/2015 dated 23th October 2015.
- Circular Form No. TOD /BA /03 should be correctly completed and reported to Treasury Operations Department while closing inactive official bank accounts. However, as of 31st December, 2016, three inactive bank accounts of the fund had been closed, but the fund had not submitted the required forms to the treasury.
- At the time of the establishment of the Tea Shakthi Fund, the 03 current accounts that had been opened for the tea Shakthi pension scheme and the management factory project for the issue of shares in the tea Shakthi fund, due to the completion and inactivity of the related projects in 2002, the transactions in the related accounts have not taken place since those years. Accordingly, the relevant current accounts have been closed at 14th June 2019.
- In relation to the closed accounts, the prescribed forms as per the circular should be submitted to the Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 30,529,438 and the corresponding deficit in the preceding year amounted to Rs. 39,232,291. Therefore an improvement amounting to Rs. 8,702,853 of the financial result was observed. The reasons for the improvement are increased in Other income by Rs.108,496,158, Interest and sales and distribution expenses were decrease by Rs. 18,124,409 and Rs.14,928,507 respectively and increase in interest income by Rs.193,599 were mainly due.

2.2 Ratio Analysis

In the year under review, the ratio of current assets and quick assets was 1:1, while in the previous year the ratios were 1:1.06 and 1:0.85 respectively. The main reason for the change in rates was that the stock balance decreased by 94 percent compared to last year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
At the end of the year under review, Tea Shakthi Fund has paid a total of Rs.154,392, Rs.109,342 and Rs.80,500 respectively as electricity Re-connection charges, surcharge charges for Employees' Provident Fund and fines for employee cases, therefore as total amount Rs.344,234 had been spent uneconomically.	Due to the financial crisis in the Tea Shakthi Fund, surcharges have to be paid due to the delay in related payments. Also, due to the closing of Tea Shakthi tea factories, the workers were unable to work, so they had to pay compensation for the complaints made by the workers.	Waste payments should be avoided by making timely payments without any delay in the expenditure of the fund.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the tea Shakthi fund had spent Rs.81,036,209 for the construction of Horana Fertilizer Warehouse and Elpitiya, Hiniduma, Raigam Korallaya and Passara tea factory buildings, the fund did not own the land where those buildings were located.	Buildings are constructed under the provisions of Tea Shakthi Fund on the written consent of the land owning institutions to transfer the respective land to Tea Shakthi Fund. Accordingly, the cost of construction of the respective buildings is shown under fixed assets. Preliminary work related to land acquisition has started.	Acquisition of land rights Should be expedited.
(b)	Pursuant to the Cabinet Decision No. AMAPA /16/1224/726/015-I dated July 13, 2016 and the related observation No. 04 of the Minister of Finance, According to the restructuring program, the amount of 135 million rupees used for the	Small Tea Estates Development Authority has been assigned only to implement the welfare fund implemented by the Tea Shakthi Fund, and the Small Tea Estates Development Authority will provide only the necessary allocations for that purpose. At the	Action should be taken according to orders.

- activities of the factories from the welfare insurance fund should be given to the shareholders and a part of the income from the lease of the factories should be given to the fund, but the money has not been credited to the welfare fund.
- time of the restructuring of the Tea Shakthi Fund, no Cabinet decision has been received to transfer the amount collected for the welfare fund to that authority. And also the Council of Ministers has decided to keep the 135 million used by the Tea Shakthi Fund only from tax and management income
- (c) Although a computer software system worth Rs. 2,435,000 was purchased in the year 2010 for the preparation of accounts for the fund's head office and all factories. However, as on December 31, 2016, the software was not used for account preparation.
- The relevant computer data system was prepared to be operated online and due to the inability to connect to the network due to the location of some factories, it has not been able to be used.
- Before purchasing the computer software system, the necessary facilities should be planned and immediate action should be taken to get the most outcomes of the purchased system.
- (d) For the Cabinet Decision No. AMAPA /16 /1224 /726 /015 – I , dated July 13th 2016 given under the restructuring of the fund, as indicated in the observations of the Minister of Finance, the permanent staff of the Head Office, should be attached on consensus of the Management Services Department Albeit that the appointing to existing vacancies and non-existing vacancies should be appointed to other institutions under the Ministry on a super-staff basis so as to be specific to them, but the fund had paid an amount of Rs. 6,936,224 as salary for 17 Tea Shakthi employees who were appointed to 06 government institutions even after the Cabinet decision.
- Arrangements have been made to include the officers who are attached to the above institutions and receive salaries from the Tea Shakthi Fund into the staff of the respective institutions and to arrange for payment of salaries from those institutions. At present, only 05 officials will get salary from Tea Shakthi Fund.
- Action should be done according to the decision of the Cabinet.
- (e) Employees and external parties had filed 142 cases in the Labor Tribunal and one case in the Court
- Agreed with the observation.
- Actions should be taken to minimize

of Appeal against Tea Shakthi Fund. Also the Tea Shakthi Fund had filed 14 cases in the district courts.

the causes of action against the fund.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) By the Cabinet Decisions No. AMAPA 16/1224/726/015-I dated 13th July 2016 and No. AMAPA/16/1427/726/015-II dated 17th August 2016, It had been decided to restructure the fund by handing over the affairs of the Tea Shakthi Fund to the Secretary of the Ministry of Plantation. Accordingly, the tea factories of Deniyaya, Gilimale, Raigam Korale and Deraniyagala were given to external parties to the lease base. As stated in Section 07 of the lease agreements, the parties who obtained property leases should obtain bank guarantees or insurances in the name of Tea Shakthi Fund for the value corresponding to the monthly green leaf capacity, but the fund had not obtained bank guarantees or insurances from the lessees accordingly.</p>	<p>Difficulty in determining the relevant amount based on the monthly fluctuations in the price of green leaf and at the time of outsourcing the factory management to external parties as well as since a long time had passed since the production of those factories had been stopped by the Tea Shakthi Fund, therefore this condition has been difficult to implement due to practical issues like taxes and management buyers having to invest a lot of money to start new production in those factories.</p>	<p>Agreements should be prepared by paying attention to the practical situation and necessary activities should be carried out according to the agreements.</p>
<p>(b) According to the second paragraph of the lease agreement, the amount of Rs. 1,500,000, which is 06 months' rent, should be recovered to the Tea Shakthi Fund as a refundable deposit from the Dikhena Small Tea Estate Development Society, which is the lease buyer party of Raigam Korale Tea Shakthi Factory. However by the time the lease agreement expires in 2021, the fund has not acted accordingly.</p>	<p>Before the expiry of the contract period of Dikhena Small Tea Estate Development Society, the factory has been transferred back to the Tea Shakthi Fund and has now been transferred back to a new management buyer.</p>	<p>As per the agreement even if the factory is handed over to the Tea Shakthi Fund before the expiry of the contract period, the refundable deposit must be recovered.</p>

- (c) Rs. 2,850,000, which was 06 months' refundable tax money deposited by the lessee during the transfer of Deniyaya Tea Factory to an external party on lease basis,
However till 31st December 2016 it was kept in current account without investment in fixed deposit.
- The amount concerned was deposited by Greenline First Company, the lessee of the plant at 05.12.2016, and invested in a fixed deposit in the year 2017.
- Financial assets should be properly invested to get maximum benefits.