

Tea Shakthi Fund - 2017

The audit of operations of the Tea Shakthi Fund for the two years ended 31 December 2017 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 Section 13(1) of the Finance Act, No 38 of 1971 and Section 13(2) of the Tea Shakthi Fund Act, No 47 of 2000. The financial statements for the years 2016 and 2017 which should be presented as per the Section 13 (6) of the Finance Act had not been presented even up to the date of this report. My observations, which I consider should be presented to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka relating to the functions of the fund during the two years under review appear in this report.

1.2 Responsibility of the Management for Financial Statements

Management is responsible for the preparation and fair presentation of financial statements of the Fund in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements and the draft annual report should be furnished to the Auditor General within 60 days after the close of the financial year. However the financial statements and the annual reports for the years 2016 and 2017 had not been furnished to the Auditor General even up to 30 September 2018.

2.2 Maintaining Accounting Books Records and Registers

Ledger accounts, other books records and registers in respect of affairs of the fund had not been maintained up to date.

2.3 Existence of Assets and Liabilities

Details of assets and liabilities of the Fund for the previous two years are given below.

Description	As at 31.12.2015	As at 31.12.2014
	Rs.	Rs.
Assets		

Non- current Assets	350,332,493	371,065,477
Current Assets	346,460,128	387,410,204
Liabilities		

Equity Capital	(111,648,540)	(72,416,249)
Non- current Liabilities	481,088,651	506,875,158
Current Liabilities	327,352,510	324,016,772
Sales	573,519,262	621,589,674
Cost of Sales	(552,517,570)	(611,323,143)
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Gross profit	21,001,692	10,266,531
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2.4 Going Concern of the Institute

The Tea Shakthi Fund had occurred continuous losses during the previous 5 years and equity capital of the Fund had decreased regularly. Accordingly equity capital of the year 2011 amounting to Rs.553.04million had shown a minus value of Rs. 111.65 million for the year 2015. On this ground the activities of the Tea Shakthi Fund had been terminated from the date under the Cabinet Decision No.16/1427/726/015-1 dated 13 July 2016 and those activities had been assigned to the Secretary to the Ministry of Plantation and Industries. Further approval had been given to restructure the Fund by implementing a programme consists with 9 proposals.

2.5 Non - compliance with Laws, Rules and Regulations and Management decisions.

Reference to laws, Rules Regulations and Management decisions

Non – compliance

a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

I. Financial Regulation 386 (3)

Although the voucher number should be entered in the counterfoil of every cheque written, actions had not been taken accordingly.

II. Financial Regulation 395 (b)

Bank reconciliations relating to the transactions of the month should be prepared before 15 of the following month. However bank reconciliations relating to 7 bank accounts as at 31 December of the year 2017 had not been prepared.

III. Financial Regulation 396

Although actions should be taken according to the Financial Regulation in connection with cheques not presented to the bank for payment which were more than 6 months and valid period was over, actions had not been taken accordingly relating to 6 cheques valued at Rs.15, 534.

b) Treasury Circular No.IAI/2002/02 dated 28 November 2002

A fixed assets register had not been maintained for computer and software valued at Rs.4, 565,247.

The following non- compliances were observed.

2.6 Transactions not Supported by an Adequate Authority

According to the Cabinet Decision No.අමප/16/1224/726/015-1 dated 13 July 2016, decision relating to further activities of the Fund should be taken by the Secretary to the Ministry of Plantation Industries and the Secretary to the Ministry of Finance. However the consent of the Secretary to the Ministry of Finance had not been obtained by the Secretary to the Ministry to delegate financial powers to officers of the Ministry since 27 September 2016.

2.7 Accounts receivable and Payable

The following observations are made.

- a) According to the financial statement presented as at 31 December 2015, the payable amount of the suppliers of green leaves of the Daraniyagala factory was Rs.1, 870,576. However a sum of Rs.3, 235,085 had been paid during the year 2016 in this regard.
- b) Constructions of Bulathkohupitiya and Pothupitiya tea factories had been intercepted in the year 2003 and a total sum of Rs.18, 042,351 issued to contractors in the year 2001 had been accounted under the advances. However actions had not been taken to settle it even up to the end of the year under review.

3. Operating Review

3.1 Performance

3.1.1 Planning

The following observations are made.

- a) According to the paragraph 5.1 of the Public Enterprises Circular No.PED 12 dated 2 June 2003, a corporate plan should be prepared including the strategies relating to the targets of the Institute and according to the Section 5.1.3 of the Circular updated copy of the corporate plan should be submitted to the Department of Public Enterprises at least 15 days before the commencement of every financial year. However actions had not been taken accordingly.
- b) According to the paragraph 4 of the Public Finance Circular of the Ministry of Planning and Implementation No. 01/2014 dated 17 February 2014, an action plan should be prepared including the activities taken to fulfil the objectives directed by the Act. However actions had not been taken accordingly.

3.1.2 Operating and Review

The following observations are made in connection with achieving objectives of the Act.

- a) Out of 15 factories belongs to the Fund, 03 factories had been leased out to external parties and a loss of Rs.88, 770,617 had been occurred from 10 factories in operation in the year 2015.
- b) The following observations are made in respect of the Welfare Section
 - i. According to the restructure programme, even though benefits should be given to shareholders and a sum of Rs. 135 million utilized for the activities of factories from the Welfare Insurance Fund should be refunded from the income to be earned by leasing factories. However actions had not been taken accordingly even up to 31 December 2017 and handing over the Welfare Fund had only been done.
 - ii. The number of shareholders of the tea shakthi Fund as at 31 December 2015 was 94,425 and share capital to that date was Rs.206, 014,150. After the year 2007 the Fund had not been operated as to pay benefits for shareholders up to now. Although the Vision of the Institute was to be the institute of excellence consecrate for the advancement of socio - economic endurance through improving share capital value of the member shareholders and tea small holders, said objective could not be achieved.

3.2 Legal Cases Filed by the Institute or Against to the Institute

Seventy nine cases had been filed by the staff against to the Fund in Labor Tribunal as at 31 December 2017.

3.3 Management Activities

The following observations are made.

- a) According to the Cabinet decision No. 16/1427/726/015-1 dated 13 July 2016, approval had been granted to transfer the management of 12 factories owned by the Tea Shakthi Fund to external parties on lease base. However according to the agreements entered into when leasing factories, certain factories had been leased out with the land.
- b) Raigam koralaya Tea Shakthi Factory had been leased out to the Dikhena Tea Small Holdings Development Society as per the decision of the Board of Management Meeting No.172 dated 9 May 2016. The numberless lease agreement which the two parties had signed on 10 June 2016 had not been registered in the Land Registry. Further, according to the conditions of the lease agreement and the paragraph 2 of the agreement, 6 months lease rent of Rs. 1,500,000 should be paid by the lessee to the lessor as a refundable deposit. However actions had not been taken accordingly.
- c) Due to the delay of 15 days to 239 days to invest the refundable deposits of Rs. 23,265,000 relating to 6 months lease rent of 9 factories, interest of Rs. 632,485 had lost to the fund.
- d) The receivable management fee/ monthly lease rent had been calculated and noted as per the condition 2 of the lease agreement and Memorandum Of Understanding entered into when leasing factories and it had been mentioned in the condition 3 that a grace period of 2 months is allowed for paying lease rent in instances of delays in commencing productions of factories. Although it had not been mentioned that lease rent was not charge for the grace period, any lessee of any factory had not paid lease rent for the grace period. Accordingly monthly lease rent of Rs.10, 845,700 relating to 11 factories and fertilizer stores had been lost to the Tea Shakthi Fund.
- e) Although lease rent of 5 factories amounting to Rs.7, 280,000 relating to the period under review was outstanding as at the date of this report, actions had not been taken according to the agreements.
- f) According to the section 7 of the agreement entered into in respect of leasing factories, bank guarantee or insurance cover should be given in favor of Tea Shakthi Fund as equal as to the monthly green leaf capacity. However actions had not been taken to obtain guarantees valued at Rs.156, 610,200 which should be given as per the said section when leasing out 11 factories.

3.4 Idle and Underutilized Assets

Even though a computer software system valued at Rs. 2,435,000 had been purchased for preparing integrated accounts of the head office of the Fund together with all factories in the year 2010, the said system had not been used for preparing accounts even up to 31 December 2017.

3.5 Uneconomic Transactions

The following observations are made.

- a) A total amount of surcharges and court fines of Rs. 366,836 and various fines amounting to Rs.590, 969 had been paid in the years 2016 and 2017.
- b) A sum of Rs.108, 356 had been paid by the Fund as delay charges and reconnection fees due to delay in payment of electricity bills of tea factories.

3.6 Staff Administration

Out of 83 employees employed in the Tea Shakthi Fund as at 31 December 2016, 10 employees had been attached to the other institutions under the Ministry and 8 employees had been deployed in the activities of the Fund. According to the Cabinet Decision No.අම/16/2550/726/015-III dated 21 December 2017 service of 65 employees had been terminated. The following observations are made in this regard.

- a) In the establishment of Tea Shakthi Fund, factories existed under the Tea Small Holdings Authority had been taken over and in the calculation of prior service period of the employees served in those factories, only the period served under the Tea Shakthi Fund had been considered. As a result compensation had been calculated understating Rs.7, 409,660 for 17 officers as per the Public Enterprises Circular No.02/2016 dated 08 March 2016.
- b) A sum of Rs.1, 849,669 had been paid as compensation to a junior assistant factory officer and a factory supervisor of the Mahawali Factory who were not in the service as at 31 December 2016 of which the date compensation scheme was scheduled to be implemented as per the Cabinet Decision.

4. Accountability and Good governess

4.1 Procurement and Contract Process

4.1.1 Deficiencies of Contract Administration

According to the Cabinet Decision No.අම/16/1224/726/015-1 dated 13 July 2016 in connection with lease out factories belong to the Tea Shakthi Fund, 12 factories had been leased out. The following observations are made in this regard.

- (i) According to the Financial Regulation 774, buyers or lessees should be selected through the Government Tender Procedure when selling properties or perquisites owned by the government. Contrary to that Raigam Koralaya Tea Shakthi Factory had been leased out directly to a Tea Small Holdings Society. The Chairman of the said society was the Acting Manager of the factory as well as a Director of the Fund Management Committee.
- (ii) Actions had not been taken to identify and asses assets of the factories before commencing activities relating to lease out factories and to prepare a time frame including estimated cash flows of lease income.
- (iii) Studies had not been carried out for the position, operation and development requirements of factories and recoverable lease income and basic qualifications in which the lessees should be qualified had not been identified.

4.2 Budgetary Control

A budget had not been prepared for the year 2017 relating to the activities of the Fund.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Fund from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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a) Accounting	Financial Statements not being presented Basic accounting books and records not being maintained properly
b) Income	Actions not being taken to issue the receipts for receiving in an arithmetical order
c) Maintaining Registers	A register not being maintained for losses and damages
d) Receivable and Payable balances	There were balances not being recovered in long period of time.
e) Factory Operations	All factories were occurred losses and weaknesses in the leasing proses of factories
f) Utilization of Assets	Assets are being idling.