

Tea Shakthi Fund - 2018

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 2018 comprising the statement of financial position as at 31 December 2018 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 report 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 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 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 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 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	Management Comments	Recommendation
(a)	Contrary to paragraph 12 of Sri Lanka Accounting Standards No. 20, the accounts had been amortised at the rate of Rs. 43,750,503 per year on the basis of amortisation over 10 years from the year 2012 without specific identification regarding the manner in which the Treasury grant of Rs. 437,505,030 received by the Fund from 1998 to 2004 for the establishment of tea factories had been utilized for fixed assets and operating expenses. Accordingly, the accuracy of the value of Rs. 43,750,503 identified as deferred income in the financial statements for the year could not be verified.	The purchase and construction of the Tea Shakthi Fund's assets had been carried out in the years 2000, 2001 and 2002. The Tea Shakthi Fund currently does not have records on the use of Rs. 437.50 million provided by the Treasury for purchase/construct or modernization of asset. However, the Fund currently only has the year in which relevant assets have been depreciated and relevant details.	The way that treasury grants had been utilized for fixed assets and operating expenses should be identified specifically and the grant value utilized for the purchase/construction/renovation of assets should be amortised and accounted for in accordance with Sri Lanka Accounting Standards 20.
(b)	No amortisation has been done so far even though 8 years had passed by the end of the year under review since the computers and software purchased for Rs. 2,600,000 and installed in 2010 despite that amortisation shall begin when the asset is available for use in terms of the paragraph 97 of Sri Lanka Accounting Standards 38 and accounting note number 2.5.	It is observed that the fund has not used the software to date even though the relevant software has been purchased by the Tea Shakthi Fund. The need for such software for the Tea Shakthi Fund is not currently observed after the restructuring of the Tea Shakthi Fund in 2016. It is observed that this situation has arisen accordingly, and a decision regarding this is scheduled to be made in the future. It is observed that this situation has arisen accordingly, and a decision regarding this is scheduled to be made in due course.	Intangible assets should be amortised in accordance with Sri Lanka Accounting Standards from the time they are available for use.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though the economic service charges of Rs. 2,790,822 paid for the assessment year 2008/2009 had exceeded the 03-year period within which they could be offset against income tax, the same amount had not been written off and had been recorded as a receivable at the end of the year under review.	The opportunity to offset income tax has been lost since the Tea Shakthi Fund has been exempted from income tax in the relevant years.	Steps should be taken to write off economic service charges that do not have room for offset.
(b)	The accuracy of the depreciation expense of Rs. 12,612,507 for the year under review relevant to the property, plant and equipment worth Rs. 248,781,342 included in non-current assets and investment property worth Rs. 28,594,225 could not be verified since an updated fixed asset register and physical verification reports regarding the assets of the Fund had not been submitted to the audit.	The fixed assets register of the Tea Shakthi Fund has not been updated and therefore could not be submitted for audit. It is kindly informed that necessary steps will be taken to rectify the situation.	An updated fixed asset register should be maintained for fixed assets identified under the correct classifications.
(c)	Even though the tax revenue related to the Mawarala Tea Factory was Rs. 5,022,000, the tax revenue for the year under review had been understated by that amount due to the fact that the value had not been recognized in the financial statements.	It is informed that the necessary steps will be taken to correct the relevant situation in the upcoming financial reports.	Financial statements should be prepared taking into account all income attributable to transactions and events during the year.
(d)	The monthly rent amount of the Raigam Korala Tea Factory lease agreement should be calculated based on the quantity of tea produced at the rate of Rs. 8 per kilo of finished tea produced in the factory ,and even though the agreement states that it should not be less than Rs. 250,000, the rent income calculated on the finished tea production of Raigam Korala Tea Factory for the year under review had not been identified in the Financial statement as had not been identified by the Fund in terms of the lease agreement.	It is informed that the necessary steps will be taken to correct the relevant situation in the upcoming financial reports.	The revenue to be collected in accordance with the terms of the agreement should be identified accurately and shown in the financial statements.

- (e) The following differences had been observed between the ledger and financial statement balances related to 04 subjects as of the end of the year under review of the Fund, and the accuracy of the balances could not be verified during the audit by comparing the relevant differences.
- It is observed that this situation has arisen due to the ledger accounts not being updated. It is informed that the necessary steps will be taken to correct the relevant situation in the upcoming financial reports.
- Steps should be taken to prepare financial statements based on updated ledger account balances.

Subject	Balance according to the ledger (Rs.)	Balance according to financial statements (Rs.)	Difference (Rs.)
Adjustments for the previous year	11,513,271	721,190	10,792,081
Retained earnings	(212,787,615)	(120,088,122)	(92,699,493)
Trade and other payables	234,348,898	233,833,519	515,379
Employee Retirement Benefit Liability	23,716,355	1,714,336	22,002,019

1.5.3 Lack of written evidence for audit

Subject	Amount (₹.)	Un provided Audit Evidence	Comments of the Management	Recommendation
(a) Trade and other receivables balances	302,435,519	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 payable balances	233,833,519			
(c) Matured tea	10,002,019	Detailed schedules and fixed asset register	Agree with the observation.	Schedules and time analyses should be submitted along with financial statements.
(d) Immature tea	6,716,358			

1.6 Non-Compliance with Law, Rule, Regulations and Management Decisions

Reference to the Laws, Rule, Regulations	Non-Compliances	Comments of the Management	Recommendation
Public Enterprises Circular No. 01/2021 dated 16 November 2021	Even though the financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end	Necessary steps have been taken to rectify the	The draft annual report should be submitted along with the financial

of the accounting year, the situation in due statements within financial statements and draft course. the prescribed time annual reports from 2019 to 2024 frame as per the had not been submitted to the circular provisions. Auditor General. The financial statements for the year 2018 were submitted on 10 April 2025 and the draft annual report for that year had not been submitted to the Auditor General even by June 2025.

2. Financial Review

2.1 Financial Result

The operating result of the Fund for the year under review was a surplus of Rs. 69,356,217 and corresponding surplus of the preceding year was Rs. 184,465,904. Accordingly, a deterioration of Rs. 115,109,687 was observed in the financial result. This deterioration was mainly due to other income decreased by Rs. 127,853,369 and administrative expenses increased by Rs. 13,856,604.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The withholding tax of Rs. 4,545,276 payable in respect of the assessment year 2002/2003 had not been paid or settled by the end of the year under review.	A decision on this is to be made in due course.	Prompt actions should be taken to make or settle outstanding withholding tax payments.
(b) One case had been filed in the District Court against the Tea Shakthi Fund by an external party, while the Tea Shakthi Fund had filed 10 cases, including 7 cases for the recovery of money, in the District Courts.	Agreed.	Efforts should be made to minimize the costs incurred in pursuing legal proceedings.
(c) Even though the ownership of the lands where the Horana Fertilizer Warehouse and the Raigam Korala Factory, operated by the Fund, are located is held currently the relevant Divisional Secretariat, while the ownership of the lands where the Elpitiya, Hiniduma, and Passara factories are located is under the Land Reforms Commission at present, buildings and factories had been constructed without transferring ownership of the lands to the fund.	Agreed.	Relevant steps should be taken to acquire land ownership.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The tea factories under the Tea Shakthi Fund had been leased to external parties on of lease agreements and memorandum of understanding after taking the decision to restructure the Tea Shakthi Fund by transferring the affairs of the Fund to the Secretary of the Ministry of Plantation Industries by Cabinet Decisions No. CP 16/1224/726/015-I dated 13 July 2016 and No. CP/16/1427/726/015-II dated 17 August 2016. Even though bank guarantees or insurance is required to be obtained in the name of the Tea Shakthi Fund for a value corresponding to the monthly raw leaf capacity by the parties who leased the property as stated in Article 07 of the lease agreements, no bank guarantees or insurance had been obtained from the lessees by the end of the year under review also.</p>	<p>The relevant clause has proved difficult to implement in practice due to the fact that buyers are not willing to hold a large amount of money since that factory buyers have to invest much amount of money for factories and very high value of monthly leave and Monthly change in the relevant value due to monthly price changes.</p>	<p>When preparing future lease agreements, attention should be paid to the practical situation and the contractual conditions should be followed in accordance with the agreements.</p>