Tea Small Holdings Development Authority - 2019

----

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tea Small Holdings Development Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of changes in equity/ statement of changes in assets 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 and provisions of the Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effect of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 Public Sector 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 Authority'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 intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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.

1.4 Scope of Audit

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 Authority'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 Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Institute

- Whether the Authority has performed according to its powers, functions and duties; and

- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance	**Comments of the Management**	**Recommendation**
(a) A sum of Rs. 58,090,138 to be shown under the investment activities in the preparation of cash flow statement had been stated under operating activities as per the Sri Lanka Public Sector Accounting Standard 02 and overprovision of Rs. 273,201 made for depreciations of machineries sated under the other income had not been adjusted to the before tax profit. Further, a sum of Rs. **272,461**	A note was made to correct the order of presentation pointed out and to re-submit the cash flow statement corrected.	Cash flow statement should be presented in terms of the Standard.

received from the disposal of office equipment had been overstated in the cash flow statement.		
(b) Use full life of the vehicles costing Rs. 36,839,950 which were further in use had not been revalued as per the Sri Lanka Public Sector Accounting Standard 03, though they had been fully depreciated by the Authority and those assets had not been disclose in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 07.	A note was made to revalue the vehicles in the year 2020.	According to the Standard, the useful life of the assets should be revalued.
(c) In terms of Section 49 of Sri Lanka Public Sector Accounting Standard 07, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Nevertheless, the entire class of furniture, fittings and office equipment had not been fully depreciated in the Head Office and the regional officers other than the Galle Regional Office. Likely, in accordance with Section 47 of the Standard, each item of Property, Plant and Equipment should be revalued every three or five year. Nevertheless, the Authority had not revalued the lands valued at Rs. 38,815,350 shown in the financial statements after 31 December 2005. It was, therefore, observed that the fair value of those lands was not shown in the financial statements.	All assets have been revalued by the Galle Valuation Department. However, according to your suggestion, a note was made to carry out revaluation in the year 2021. Similarly, a note was made to revalue the lands of the Authority with the assistance of the Valuation Department in the future and make relevant adjustments in the final accounts for the year 2020.	According to the Standard, the entire class of property, plant and equipment shall be revalued and brought to accounts. Likely, lands should be revalued once every three or five year.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The tax liability of Rs. 1,346,202 payable on the interest income of Rs. 4,807,865 during the year under review had not been shown in the financial statements.	The value after deduction of withholding tax, which is directly related to interest income, has been accounted for in the income. It is informed that the Income Tax Department has not made notification regarding payment or default of tax.	Income tax payable on interest income should be calculated and remit to the Inland Revenue Department.
(b) A sum of Rs. 6,664,321 due from tea small holdings development societies by the end of the year under review in respect of vehicle loans given under the loan basis in 1998 had been accounted for as restructured vehicle loans. Although 23 vehicles out of the vehicles belonging to the loan balance were taken over by the Authority and sold for Rs. 9,823,577 during the year under review and the preceding year and Rs. 9,207,958 of which had been accounted for as payable deposits, action had been taken to identify and account for the amount to be settled for the above restructured loan balance.	As presented, the loss incurred in providing the vehicles of the societies included in the restructured amount of Rs. 6,664,321 was Rs. 6,315,532. The decisions of the Board of Directors and the recommendations of the Committee have already been given to write off that amount from the accounts books and the approval of the Treasury has been sought to write it off. Since the approval sought from the Treasury to write off the proceeds from the sale of the vehicle has not been received ay yet, that amount has been thus retained in the accounts until the relevant approval is given.	After accounting for the vehicles acquired by the Authority, the expenses should be settled from the proceeds of the sale and the balance should be remitted to the Treasury.
(c) A sum of Rs. 1,056,844 paid as the future payments for the Walahanduwa Nursery belonging to the Galle Regional Office during the year under review had been added to the nursery's closing stock value at the end of the year under review instead of accounting for that amount as payments made for the future. As a result, its closing stock value had been overstated in the financial statement.	Seedlings belonging to 2 periods as 2018/2019 nursery seedlings and 2019/2020 nursery seedlings were physically present at the Walahanduwa Nursery of the Galle Regional Office, as at 31 December 2019. It is informed that, in calculating the profit and loss of the year under review, all the income and expenses of the nursery 2018/2019 were properly accounted for and thereafter, the profit of the Walahanduwa nursery for the year under review was calculated.	Payments made for the ensuing year should be accounted for as future payments.
(d) The contract worth Rs. 8,096,120 pertaining to the renovation of Galle Regional Office had been awarded on 31 December 2019 to	Necessary repairs to the building which were to be carried out under the allocated provisions were	Only value of the works certified by the Engineer by the

a private contractor in Pitigala area and works of the contract had not been commenced during the year under review. However, a sum of Rs. 10,000,000 relating to this contract had been brought to accounts under the financial assets as work-in-progress in the year under review and the creditors' account had been credited by that amount. As a result, work-in-progress and creditors had been overstated by that amount in the financial statements for the year under review.	commenced in the year 2019. In addition to the contract amount, uncertain expenses as well as taxes had to be borne to renovate an old building according to the recommendation to be made by the Galle Heritage. Accordingly, a sum of Rs.10 million including said uncertain expenses and taxes has been brought to account under the work-in-progress and creditors.	end of the year under review should be accounted for as work-in-progress and creditors.
(e) According to the physical stock verification carried out by the end of the year under review, it had been revealed that stock balances costing Rs.6,454,098 belonging to the Head Office were not physically available. Nevertheless, necessary adjustments for that had not been made in the financial statements.	The existence of the physically unavailable balance has existed since 2004 and 2005. The Assistant Manager (Finance) has been assigned to carry out a stock verification as a special program. Action will be taken to make relevant corrections according to this verification.	Necessary adjustments should be made in the financial statements by carrying out stock reconciliation promptly.
(f) A stock of goods worth Rs. 5,723,641 ordered during the year under review had been debited to the Sundry Stock Account before the receipt of those goods. As a result, balance of the Sundry Stock Account as at 31 December of the year under review had been overstated by that amount in the financial statements.	Purchase orders have been placed for purchases from suppliers identified through the procurement process. For the commitment incurred through the placement of the order and the agreement, the creditors' amount has been credited and Rs. 5,723,641 has been debited to the stock account.	The stocks ordered during the year under review, but not received by the stores should be accounted for as the stocks in transits.
(g) Although the stock of nursery plants worth Rs. 14,260,603 as at the end of the year under review should be stated in the statement of financial position under the current assets, it had been stated as another financial asset.	In preceding years, the stock of nursery plants had been stated as other financial assets in the statement of financial position due to their low liquidity. But as proposed, a note was made to state it under the current asset in the year 2020.	The stock of nursery plants should be stated under the current assets in the statement of financial position.
(h) The value of lands stated at Rs. 73,907,078 in the statement of financial position for the year under review included lands worth Rs. 35,091,728 owned by the Government, Land Reforms Commission and Mahaweli Authority etc. which had not been acquired by the Authority. Nevertheless,	Since action is being taken to properly take over the property and the relevant transfer activities are already underway, the value the relevant property has been entered into the annual accounts of the Authority and brought to accounts. In view of all the above matters, the	Ownership of the lands should be expeditiously taken over to the Authority and only the assets belonging to the Authority should be

it had not been disclosed in the financial statements.	values of the revaluation carried out in the year 2005 have been included in the accounts and the Valuation Department has been informed to assess the property owned by the Authority. In case of accounting for unsettled property in the future, action will be taken to submit them in Notes.	brought to account.

1.5.4 Unreconciled Control Account

Item	Value as per financial statements Rs.	Value as per corresponding reports Rs.	Difference Rs.	Comments of the Management	Recommendation
Buildings					
Galle	19,230,055	18,751,782	478,273	Construction of buildings has not been shown according to the regional office accounts.	
Ratnapura	20,137,376	20,230,036	92,660	Construction of buildings has not been shown according to the regional office accounts.	
Furniture and Fittings-Hanthana	3,283,901	3,241,026	42,875	A sum of Rs.42,875 had been accounted for as disposal of furniture and fittings in the year 2018 and that amount had been mistakenly shown in the revaluation in the year 2019. That amount has been deducted only from the depreciations.	Differences between the financial statements and the accounts records of the regional offices should be reconciled and corrected. .
Internal Current Account-Hanthana	86,800,290	86,690,565	109,725	Value of the Metam Sodium exchange between Kegalle and Hanthana Regional Offices had not been stated in the current account of the Hanthana Training Centre.	
Opening balance of the accrued subsidy – Galle	39,921,584	39,184,834	736,750	Error occurred in recording opening balance of the accrued cultivation relief of the Galle Regional Office in 2019.	
Total			1,460,283		

1.6 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Out of the loans given to the Tea Smallholder Societies in 1998 to purchase fertilizer, liquid sprayers and scales under the Fertilizer Loan Scheme, loan balance of Rs. 4,300,942 remained at the end of the year under review had not been settled or written off for more than a period of twenty years.	Numerous efforts were made from the year 1998 to recover this amount due. It is informed that action will be taken to correct this in the future by assigning the responsibility with the All Ceylon Societies Organization to recover the dues.	Action should be taken to recover the dues or write off them from the books under a proper approval.
(b)	Out of the loans granted under programme for the provision of Colour Separators to the Tea factories in the year 2018, a sum of Rs. 5,916,589 due from 04 private factories had not been recovered up to the end of the year under review.	Legal action is being taken to recover the amount due for the machine given to the Eriyagaha Factory from these 04 color separators machines. It has been agreed to settle our money in the release of liabilities following the liquidation of the machinery belonging to the Galle Multipurpose Co-operative Society. Further measures are underway to recover dues relating to the remaining color separator machines.	Action should be taken to recover the dues expeditiously.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance Rs.	Comments of the Management	Recommendation
(a) Financials of the Democratic Socialist Republic of Sri Lanka (i) F.R.681	In appropriate cases where it is considered absolutely necessary, Government Departments, may with the prior approval of the Secretary to the Ministry concerned, give publicity over Radio and Television. Nevertheless, a sum of	The Tea Small Holdings Development Authority had publicized technical messages using television media on previous occasions and it is not established that the prior approval of the Secretary to the Ministry had been obtained any of the above occasions. It is informed that written approval of the Chairman of the Institute has been obtained for the said	Prior approval of the Secretary to the Ministry should be obtained for the propaganda activities as per the Financial Regulations.

	Rs. 2,194,091 had been spent to give publicity over the Television during the year under review without obtaining such prior approval.	television publicity.	
(ii)F.R.682	It is prohibited form publishing newspaper supplements and advertisements projecting Political Personalities and Parties. Nevertheless, advertisements projecting Political Personalities and Parties had been published at a cost of Rs. 3,583,162.	Several advertisements were published in national newspapers with the approval of the Chairman of the Authority and it is informed that any advertisement was not created with the objective of projecting Political Personalities and Parties in any instance.	Propaganda activities should be carried out in accordance with the provisions of the Financial Regulations.
(b) Circular No.01/2018 dated 19 March 2018 of the Ministry of Finance and Mass Media.	A sum of Rs. 9,872,227 received in the years 2018 and 2019 from the disposal of Society vehicles acquired by the Authority from the Tea Shakthi Fund had been retained in the Authority without taking action to credit it to the Consolidated Fund.	Details on the sum of Rs. 9,872,227 received from the disposal of Society vehicles have been furnished to the State Finance Department. Similarly, approval has been sought to offset the amounts due from the societies against this sum. As such, it has been stated in the financial statements as a liability of the Authority until a notification is made to credit the same to the Consolidated Fund.	Action should be taken in accordance with the provisions of the Circular with regard to the money received from the sale of vehicles purchased using Treasury grants.
(c) Sections 08 and 12 of the Public Contract Act No.03 of 1987.	Although the officials of the Procurement and Evaluation Committees should not deal with tenderers who do not have a valid registration certificate under the Registrar of Public Contract, action had not been taken accordingly with regard to the contract	An additional condition had not been included that the contractor is required to register under the Public Agreement Contract Act No.03 of 1987 and it was able to handle the work of the Contractor in accordance with the CIDA guidelines. Accordingly, taking into account that relevant minor contractors might be discouraged from imposing additional conditions, above steps were taken.	According to the provisions of the Act, no activities should be carried out with the tenderers who do not have a valid registration certificate under the Registrar of Public Contracts.

		worth Rs.11,213,888 for the construction of side wall on both sides of the road at the Wickramanayake National Training Center and the contact worth Rs. 7,682,375 for fixing aluminum doors and windows at the Head Office.	Accordingly, it will be noted down to take steps as proposed by taking into consideration the provisions of the above Act in the future.	
(d)	Public Enterprise Circular No. PED / 12 and 02 June 2003 and Section 11 of the Finance Act No. 38 of 1971	Although the Authority had invested Rs. 100,185,473 in fixed deposits and short term deposits as at 31 December 2019, approval of the relevant Minister and the Minister of Finance had not been obtained for that purpose.	A sum of Rs.15.3 million has been invested in Fixed Deposits with the approval of the Board of Directors and on the recommendation of the Ministry of Plantation Industries with the approval of the Director General of the Department of Public Enterprises. In addition, Rs. 84.8 million of the Employees' Revolving Fund has been invested in seven day deposits with the approval of the Board of Directors.	Approval of the relevant Minister and the Minister of Finance should be obtained.

1.8 Finance Management

Audit Observation	Comments of the Management	Recommendation
It was observed that Seven days deposits of Rs. 20,390,000 as at the end of the year under review had continued to exist over a period ranging from 189 days to 2,584 days. It was further observed that due to the fact that the interest rate on seven-days deposits as on 31st December 2019 being only 5.5 percent, the Authority had not made investments in fixed deposits and thereby, the Authority had lost the opportunity to receive higher interest income from the investments.	The excess money that is not required to use for financial needed in a short period of time is invested in Seven days deposits. However, investments have been made in Seven days deposits so as to be able to make payments for the loan requests submitted. It is informed that as it is required to wait until the maturity of fixed deposits, money has been invested in seven days deposits.	Investment decisions should be taken in a manner it is more profitable to the Authority.

2. Financial Review

2.1 Financial Results

The operations of the Authority for the year under review had resulted in a deficit of Rs. 78,799,494 as compared with the corresponding deficit of Rs. 62,748,445 for the preceding year, thus observing a deterioration of Rs. 16,051,049 in the financial results. This deterioration was mainly due to incurring an expenditure of Rs. 42,827,484 for the development expenses in excess of the Government grants.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the order made by the Minister of Plantation Industries by the Gazette (Extraordinary) of the Democratic Socialist Republic of Sri Lanka No. 1701/1 dated 11th April 2011, it had been stipulated that the subsidy to be given for one tea plant under the program of providing additional saplings should be Rs.25. Nevertheless, without being taken action to properly revise the amount to be so paid, a subsidy of Rs. 138,992,167 at Rs.100 per plant had been paid during the year under review on a decision of the Board of Directors.	With the approval of the Budget Department, annual provisions had been made by the Line Ministry. Accordingly, after obtaining approval of the Board of Director to increase the amount of subsidy as proposed before issuing the relevant circular, action was taken to pay the subsidy following the issue of the circular pertaining to the increase of subsidy.	Without properly amending The orders made by the Minister of Plantation Industries, those shall not be violated.
(b)	In the provision of motorcycles to 70 Tea Inspectors / Extension Officers for field duty, the Authority had certified them to obtain new motorcycles under the Budget Proposals 2014/15 before the expiry of 8 years entitlement period and as a result, the loss incurred by the government was Rs.10,112,300.	The distribution of motorcycles was carried out by the District Secretariats and only the certification of the application was done by the General Manager of the Authority. Letters of instruction issued by the Budget Department had authorized all field officers other than those with disciplinary issues to obtain motorcycles.	Before the expiry of date of entitlement for the previously acquired motorcycles, recommendations should not be made for new motorcycles

3.2 Operating Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Plans had been drawn to pay tea replanting subsidy under 05 phases. The growers who had obtained Rs. 918,115,761 for 03 of said 05 phases from the year 2012 to 2016 had not taken steps to remaining amount of the subsidy or to replant the tea. Accordingly, it was observed that about 50 per cent of the tea replantation subsidy given during the past 05 years had not been utilized for the desired objective. Nevertheless, the management had not taken steps to encourage the said beneficiaries towards the replantation or to recover the money.	Out of the permissions pertaining to the preparation of lands during the period 2012 to 2017, number of growers who completed their cultivation and the extent of lands was 79 per cent and 74 per cent respectively. As such, it is not possible to agree with the statement that 50 per cent of the amount spent for the subsidy was not directed to achieve the objective. According to the instructions given by the Head Office, the regional offices are in the process of the recovery of money from the permission holders who do not complete the cultivation, whereas the Authority has no legal authority for that process. Even though steps were taken to obtain legal authority for that purpose, the Ministry of Plantation had notified on 09 September 2014 to amend the directives by eliminating the legal provisions.	A system should be put in place to direct the subsidy holders towards the tea replantation or recover the money from the subsidy holders who do not engaged in tea replantation.
(b)	Registration, control of tea small holding development societies and provision of subsidies to the members of those societies are the functions of the Authority and Rs. 7,522,098 had been spent during the year under review for that purpose. However, despite being operated 1,475 tea small holding development societies under the supervision of the Authority, the number of societies that remained at a satisfactory level by the end of the year under review had been established as 270. Similarly, it was further observed that the number of members had decreased by 17,462 in the year under review as compared with the preceding year. Further, due to lack	The retardation of the societies to perform the activities imposed by the General Statute of the societies has attributed to deteriorate the satisfactory level of the societies' performance. Although the Authority informed that matter regularly, societies always expect the Government patronage. Even though the Societies Statute was timely amended in the year 2018 and extended assistance and guidance of the Authority, it can highlighted that the leaders of the societies are necessarily responsible for the maintenance of societies at a satisfactory level.	Authority's attention should be drawn on the maintenance of the performance on tea small holding development societies at satisfactory level.

	of Tea Inspector/Extension Officers in each division, performance of 61 societies registered under the Authority had not been evaluated.		
(c)	The Authority had called for bids for purchasing 2,460,000 tea seedlings under the Crop Rehabilitation Assistance Scheme and the Technical Evaluation Committee had confirmed that all the three nursery institutions that had submitted bids were fake and had rejected the bids and stopped the supply of additional plants. Although 744,881 tea seedlings remained unsold in 10 tea nurseries owned by the Authority during the year under review, no attention had been drawn to develop these nurseries and meet the seedlings requirement of the above Crop Rehabilitation Programme.	It is informed that it was found difficult to procure suitable quality seedlings for purchase under the above programme and the cultivation season had already begun. The main objective is to provide tea seedlings grown under institutional nurseries to the tea re-cultivated farmers under the tea plant subsidy, and in case the seedlings so produced were used for the Crop Rehabilitation Programme, there would have been a shortage of seedlings for replanting lands. Seedlings that do not show optimal growth are not issued to farmers. Accordingly, although there were 744,881 seedlings remaining in the institutional nurseries at the end of the year, they could not be used for the Crop Rehabilitation Programme as they had not grown to the level suitable for planting in the field.	Attention should be drawn to develop institutional tea nurseries and provide tea plants with optimal growth required for subsidy programmes.
(d)	Although there were 870 commercial tea nurseries registered with the Authority to obtain healthy seedlings to the tea small holding planters to increase tea production and the productivity, the number of tea nurseries examined by the Tea Reach Officers was only 25 per cent during the year 2018/2019. It was, therefore, observed that supervision on the tea nurseries remained at a low level.	Even though permissions had been issued for 870 nurseries during the year, only 682 nurseries had begun nursery activities. The number of CN-5 test conducted was 457 and it was 67 per cent as a percentage.	Inspections on the commercial nurseries should be expanded with the involvement of the Tea Research Officers.
(e)	The Authority had spent Rs. 17,313,714 on extension and guidance training programmes during the year under review and 41 per cent or Rs. 7,104,573 of which	Since the publicity via electronic and print media was given aiming at more tea small holding owners, relevant expenditure has been incurred under	Government funds should be economically, efficiently and productively used

	Audit Observation	Comments of the Management	Recommendation
	had been spent for electronic and print media publicity of the sports events conducted at the areas of the Regional Offices.	the approval of the Chairman.	for the relevant objective.
(f)	The Authority had paid Rs. 27,358,214 to a private insurance company to obtain insurance policies for the members of the Tea Shakthi Welfare Fund from the year 2017 up to the year under review. Nevertheless, a sum of Rs. 690,525 received from the year 2017 for making payments to the members of the Tea Shakthi Welfare Fund had not been paid to the beneficiaries till the date of this report. Further, according to the report of the Internal Auditor dated 15 November 2019, a sum of Rs. 8,502,397 was to be paid to the Tea Shakthi Welfare Beneficiaries. Nevertheless, the Authority had not received above sum even by 15 September 2020.	The reason behind not submitting the relevant payment documents to the Finance Division of the Authority is the issue of verification of the claimed beneficiaries and subsequent owners and documents have been called for from the relevant beneficiaries and societies to rectify these deficiencies. Action is being taken to make relevant payments by rectifying those deficiencies. In order to pay the Rs. 8,502,397 to be paid to the insurance beneficiaries according to the report of the Internal Auditor, the relevant amount is being recovered from the insurance company.	Action should be taken to put in place a procedure to receive benefits to the beneficiaries of the Welfare Fund without delay.

3.3 Under Utilization of Funds

	Audit Observation	Comments of the Management	Recommendation
(a)	Of the funds received by the Authority in the year 2016 to grant subsidy to the tea growers under the Tea Fertilize Project implemented by the Government, a sum of Rs.32,065,870 had been retained by the end of the year under review without being used for the intended purpose.	On completion of the project by paying the Government fertilizer subsidy, the remaining money has been used to provide agricultural equipment to the tea smallholders with the approval of the Board of Directors. It is informed action will be taken to adjust the amount specified in this account as a grant and write off as an amortization within the next 5 years.	The funds remained on completion of the projects should be remitted to the Treasury.
(b)	Of the funds provided to disburse as subsidy for partly and fully damages caused to tea small holdings situated in Divisional Secretary's Divisions of Galle, Matara, Ratnapura and Kalutara Districts due to the flood experienced in the year 2017, a sum	The money remained after the payment of subsidies for the lands damaged due to the flood occurred in 2017 was paid as subsidies for replantation, new cultivation and additional plantations under the approval of the Board of Directors	After the use of Treasury funds for the intended purpose, the balance should be remitted to the

	of Rs.46,991,673 had been retained in accounts even by the end of the year under review without being remitted to the Treasury.	with the knowledge of the Ministry. It is informed action will be taken to adjust the remaining amount as an amortization within the next 5 years considering the same as a grant.	Treasury.
(c)	Direct bank debits of Rs. 10,554,689 made as fertilizer and flood relief for tea farmers at the end of the year under review had been transferred to the Unclaimed Cheque Account due to dormancy of the accounts submitted by the tea farmers, difference of the name and the account number etc. and the deration thereof ranged from six months to 05 years. Nevertheless, action had not been taken to pay relevant funds to the beneficiary or send to the Treasury.	Due to errors in the accounts of the beneficiaries, the fertilizer and flood relief funds have been temporarily credited to the unclaimed cheque account. However, the beneficiaries have been repeatedly informed by registered post to open new bank accounts for the subsidy. In addition, action has been taken to inform the beneficiaries who are entitled to the subsidies through the field officers at present.	Action should be taken to grant subsidy on time to the farmers who are entitled to the subsidy and remit the unused funds to the Treasury.
(d)	A sum of Rs. 3,196,085 received Under the Divi Neguma programme for tea small holding development activities such as new tea cultivation and replanting, pepper cultivation and additional plants growing on tea lands had not been used for the relevant purpose from the year 2016 and was retained till the end of the year under review.	On completion of the Divi Neguma programme, the remaining funds were used to purchase tea plucking scissors and leaf baskets at half the market price and provide them to smallholders on approval. It is informed that the remaining funds of the Divineguma programme will be brought to account as a grant and will be amortized and written off within the next 05 years.	The remaining funds should be remitted to the Treasury on completion of the Programme.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
As per the recommendations of the Tea Research Institute, the most suitable fork for the use of tea lands is a fork made by putting the blade and the handle together in the same metal mold, whereas without being adhered to that specification in calling for bids, 9,450 forks made of steel handles and blade by metal soldering had been procured spending Rs. 27,145,150 during the year under review. Accordingly, the Authority had not been	The ordered quantity of forks had been delivered to the Authority during the period from 06 June to 07 October 2019. With the declaration of the Presidential Election on 18 September 2019, the distribution of goods by was stopped by the Authority. Although plans had been drawn to distribute them during the permitted training programmes in the year 2020, it was not possible to conduct the training	In the procurement process, specifications should be adjusted in keeping with the Authority's requirements and goods should be procured more profitably to the expenditure

able to purchase the most suitable fork for the tea farmer to use for the tea industry. It was, therefore, observed that productivity had not been taken into consideration. Likely, an expert on the subject in terms of Section 2.8.4 (c) of the Government Procurement Guidelines had not been appointed to the Technical Evaluation Committee appointed for this purchase. Although there were 12,235 forks for distribution among tea farmers including the forks purchased under the Agricultural Equipment Distribution Program during the year under review, only 596 forks had been distributed during the year under review. Therefore, it was observed that the forks valued at Rs. 32,095,016 had been stored idle in the Regional Offices without being used for the intended purpose as at the end of the year.	programs as planned due to the corona epidemic situation in the country. However, it is informed that the measures are being taken to distribute them at the training programmes that have already been started.	incurred.

3.5 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
The Authority had recruited 52 employees on casual, checkroll and contract basis during the year under review without obtaining the prior approval of the Department of Management Services as per Section 07 of the Public Administration Circulars No. 25/2014 dated 12 November 2014. Salaries of Rs.16,004,184 had been paid during the year under review to the above employees recruited	Steps have been taken to rectify the above situation by terminating these appointments which had been made by surpassing the powers of the Appointing Authority.	Circular provisions should be followed in recruiting employees.

3.6 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
Eight officers had been recruited for the post of Tea Inspector/ Extension Officer on written tests and interviews during the year under review and subsequently, another 13 individuals had been retained in the waiting list. Thereafter, a sum of Rs. 532,553 had been spent for the training of the officers in the waiting list. Nevertheless, due to lack of legal provisions to recruit those officers trained on 24 June 2019 to fill the vacancies, again newspaper advertisements had been published for that purpose. Accordingly, the expenditure incurred on the training of officers in the waiting list is observed as an illegal and uneconomical expenditure.	In addition to the eight Tea Inspectors/ Extension Officers recruited on the approval of the Department of Management Services, thirteen qualified persons in the waiting list have been directed to the training workshop conducted at the Hanthana Training Center as per the directives made by the Chairman of the Authority.	Funds should not be spent for the training of applicants in case there are no legal provisions to recruit them.