

**Head 410 - State Ministry of Company Estate Reforms, Tea and Rubber Estate Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion.**

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1. Financial Statements

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1.1 Opinion

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The audit of the financial statements of the State Ministry of Company Estate Reforms, Tea and Rubber Estate Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended, 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. The summary report including my comments and observations on the financial statements of the State Ministry of Company Estate Reforms, Tea and Rubber Estate Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion was issued to the Chief Accounting Officer on 29 June 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the State Ministry in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Chief Accounting Officer on 11 October 2022. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the State Ministry of Company Estate Reforms, Tea and Rubber Estate Related Crops Cultivation and Factories Modernization and Tea and Rubber Export Promotion as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities for the Financial Statements are further described in the Auditor's Responsibilities section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

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The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per section 16(1) of the National Audit Act No. 19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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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 the Auditor General'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, and it's materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

#### 1.5 Report on Other Legal Requirements

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I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made in my report on the financial statements of the preceding year had been implemented.

## 2. Financial Review

### 2.1 Management of Expenditure

The following observations are made.

| Audit Observation  | Comment of the Chief Accounting Officer  | Recommendation  |
|--|--|---|
| (a) It was observed that Savings ranging from 7 per cent to 98 per cent, which a sum of Rs. 1,286,515,040 from the money provisioned for 21 objects.   | The provision had saved due to reasons such as, vacancies in the staff, import limitations in the market although furniture and equipment had been ordered, issues in foreign exchange, management of expenses due to Covid-19 pandemic, and reduction in expenditure requirements   | The provision made should be utilized in full.                                  |
| (b) The provision of Rs. 460,000 made under 02 capital and recurrent Objects had been saved in full without being utilized.  | The provision had saved due to the reasons such as, foreign travels had not been made due to Covid-19 pandemic, and lack of necessity for incurring expenses on maintenance and construction of buildings of the new office premises of the Ministry.  | The provision made should be utilized in full.                                  |
| (c) A sum of Rs. 20,000,000 had been approved through supplementary estimates relating to development assistance under Object Code 2202 of Programme No. 02. Nevertheless, the saving thereunder amounted to Rs. 461,391,566 and hence, there existed no requirement for the approval of supplementary estimate. | As provision sufficient for purchasing office equipment and computer accessories required for maintaining this Ministry established newly in August 2020, had not been made under 410-1-2-2102, a provision amounting to Rs. 8.5 million had been requested from the Department of National Budget, and additional provision had been made. Provision amounting to Rs. 20 million had been provided by the Department of National Budget for the Object Code 410-2-3-13-2202 to implement the budget proposals of the year 2021 under the development programme. | Financial estimates for each Object should be prepared as accurate as possible. |

## 2.2 Incurring of Liabilities and Commitments

| Audit Observation  | Comment of the Chief Accounting Officer   | Recommendation  |
|--|---|---|
| A liability of Rs. 160,007 payable to Sri Lanka Telecom PLC that had not been shown in (Note-iii) relating to liabilities and commitments in the financial statements, was settled in February 2022. | As the telephone bill for the month of December, 2021 had been received after a delay, it could not be shown in the statement of liabilities and commitments of the financial statements for the year 2021. | It is the responsibility of relevant officers to include all liabilities relating to the year under review in the statement of liabilities and commitments of the financial statements. |

## 2.3 Certifications of the Accounting Officer

| Audit Observation  | Comment of the Chief Accounting Officer  | Recommendation  |
|--|--|---|
| According to Section 38 of the National Audit Act, No. 19 of 2018, the Accounting Officer should ensure that an effective methods exists in order to carry out internal audits properly. However, Nevertheless, an Internal Audit Unit had not been established in accordance therewith. | Requests had been made to the Ministry of Public Services, provincial councils and local government through the Letter No. SMTR/2/T&R/12/Vacancies dated 2021.07.22, 2021.09.14, 2021.10.28 and 2022.02.03 seeking approval to fill the vacant post of Internal Auditor. An Internal Audit Unit could not be established due to the failure in filling that vacancy. | Action should be taken in terms of provisions given under Section 38 of the National Audit Act, No. 19 of 2018. |

## 3. Operating Review

### 3.1 Non achievement of Expected Outcomes

The following observations are made.

| Audit Observation  | Comment of the Chief Accounting Officer  | Recommendation  |
|--|--|---|
| (a) Unfavorable variations were observed between the actual physical progress as at 31 December 2021 and the estimated progress as at that date in the progress reports of the development project | There existed differences between the estimated physical progress and actual physical progress as at 31 December 2021 due to reasons such as, increase in the prices of building materials as against the estimates by the end of the year, execution of | Relevant activities should be executed in accordance with the target planned. |

relating to the diversification of sources of income of the rubber smallholders thereby transforming such lands into profitable commercial units.

activities using saved provision made on other activities, bid values exceeding the amounts allocated, failure of some of the selected beneficiaries in properly carrying out the activities, difficulties faced by the famers in supplying bee colonies, approval given on projects after a delay, and difficulty in the supply of building materials like cement, concrete blocks and metal.

- (b) All the activities relating to the implementation of 18 projects involving plantation, and preparation of boundary maps, etc had been coordinated by the Ministry in the year 2021. As for the development projects coordinated by the Ministry, there existed 10 projects with 100 per cent financial progress along with 07 projects which had failed to achieve 100 per cent financial progress whereas sprinkler irrigation project for tea cultivation had shown no financial progress at all.

As all the requests could not be fulfilled by the relevant institutions relating to the project for proliferating trees to provide shade for tea estates with a view to minimizing the effect of climatic changes, provision had saved.

As for the purchase of equipment required for the project to adapt the Kalubowitiyana Tea Factory to modern technology through the procurement process, the bid values increased due to devaluation of Rupee, thus failing to purchase the equipment. Due to lack of time to call for quotations again, funds allocated to the project saved.

Due to difficulties faced in the implementation of project for the diversification of sources of income of the small Rubber plantations thereby transforming such lands into profitable commercial units, such as, problems in supplying building materials like cement, concrete blocks and metal required to construct the house, difficulties of the farmers in finding bee colonies, failure of the beneficiaries in properly carrying out the activities, operation without multipurpose shredder machines, failure in conducting training programs owing to covid-19 pandemic, and failure in organizing field visits, the savings

The relevant development projects should be completed within the planned timeframes.

occurred.

The saving of provision of the project for providing subsidies to the small and medium scale entrepreneurs relating to rubber-related industries was attributable to the reasons such as, failure in implementing as planned due to Covid-19 pandemic, increase in market prices of building materials, increase in the prices of raw materials and scarcity of equipment.

Due to Corona pandemic in the country and crippled sources of income, many of the beneficiaries did not contribute to the sprinkler irrigation project for tea cultivation. The institutions which had furnished bids for water pumps and hoses, could not supply those items due to restrictions on imports. As such, the project could not be implemented.

As for the project to implement the master plan for rubber, the provision saved due to reasons such as, delays in conducting field inspections, failure in purchasing seeds during the season of cultivation, failure in conducting training programs and failure in conducting auctions for rubber. Furthermore, due to vacancies in the staff, a sum of Rs. 4.2 million had saved out of the provision amounting to Rs. 10 million made on capital expenditure.

As it had been informed by the Department of National Planning that repairs on buildings under the project to renovate the regional offices in Kegalle and Galle, be carried out by incurring a maximum of Rs. 49 million, a sum of Rs. 21 million saved.

As for the project to prepare boundary and cadastral maps after surveying the estates administered by regional plantation companies, a

sum of Rs. 90 million had been allocated for erecting poles at the estates surveyed for the year 2021. Accordingly, an estimate valued at Rs. 269.8 million, including taxes, had been presented by the Sri Lanka Engineering Corporation to manufacture and transport boundary poles relating to 130 estates already surveyed. Accordingly, instructions were given by the Cabinet through the Decision No. අම/21/1499/326/035 dated 2021.09.22 that the said activity be executed through regional plantation companies, thus resulting in the saving of Rs. 90 million allocated thereon.

### 3.2 Other Observations

#### 3.2.1 Estates of the Government Given on Lease to Regional Plantation Companies

| Audit Observation   | Comment of the Chief Accounting Officer   | Recommendation  |
|---|---|---|
| <p>A lease rent revenue of Rs. 1,082,869,913 remained recoverable from 20 regional plantation companies for the year 2021 whereas the revenue collected through lease rents for the year 2021 totaled Rs. 769,912,476 which represented 71 per cent of the lease rent scheduled to be collected in the year 2021. The outstanding lease rent payable by 09 plantation companies for the year 2021, totaled Rs. 312,957,437. The total of the annual lease rents payable by Kotagala Plantation Ltd and Maskeliya Plantation Ltd for the year 2021, amounted to Rs. 143,195,155. That value represented 46 per cent from the total annual lease rent receivable for the year 2021.</p> | <p>As at 31 December 2021, the plantation companies in Hapugasthenna, Balangoda, Kelani Valley, and Mathurata had defaulted on one installment each whilst company in Bogawanthalawa had defaulted on 02 installments with the plantation company in Chilaw had defaulted on 03 installments. Action had been taken by 30 June 2022 for the recovery of outstanding lease rents from the plantation companies. Action had been taken to recover a sum of Rs. 22,284,630 out of the outstanding lease rent payable by the Maskeliya Plantation Company with respect to the year 2021, and they had been informed in writing to settle the balance.</p> | <p>Action should be taken for the expeditious recovery of all lease rents payable by the regional plantation companies.</p> |

### 3.3 Management weaknesses

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The following observations are made.

| Audit Observation   | Comment of the Chief Accounting Officer  | Recommendation  |
|---|--|---|
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| (a) The minimum limit on receipts under the Public Officers Advance "B" Account had been approved to be Rs. 5,000,000 and that limit had later been revised to Rs. 1,800,000. However, due to failure in updating such revisions, the said limit further remained as Rs. 5,000,000 in the computer printouts of the Treasury (SA-52).   | As credit facilities had not been requested as expected, the Treasury was requested to revise the limit on receipts to be Rs. 1,800,000 in terms of FR 503. The Treasury is taking further action in this connection.  | Corrective measures should be taken on the computer printouts of the Treasury (SA-52).                |
| (b) It was mentioned in the progress report furnished by the Ministry that there existed 1,000 beneficiaries under the programme to develop a comprehensive household economic system implemented by the Tea Smallholder Development Authority targeting Samurdhi/low income families. Although it was mentioned that the financial progress thereof was 100 per cent as at 31 December 2021, names and addresses of the beneficiaries of the project had not been included in the file maintained. | The Tea Smallholder Development Authority had been requested to furnish the register containing names of beneficiaries relating to this project, but the complete register has not yet been received. It is kindly informed that the register, once received, will be presented to you.        | The relevant information should be obtained without delay thus ensuring completeness of the file.     |
| (c) Outstanding lease rents totaling Rs. 886,412,194 were observed to have been receivable from regional plantation companies as at 31 December 2021 and the total of outstanding lease rents payable by the Kotagala Plantation Ltd and Kurunegala Plantation Ltd, amounted to Rs. 662,476,865 which represented   | As the Kurunegala Plantation Ltd is fully owned by the Government, a policy decision should be taken on the recovery of outstanding lease rents. The Sri Lanka State Plantations Corporation and Janatha Estate Development Board-the lessors, had been informed in writing on 2021.08.04 that | Action should be taken for the prompt recovery of lease rents from the regional plantation companies. |



75 per cent of the total balance receivable. No effective measures had been taken for the recovery of those dues.

legal action be taken through the Attorney General in order to recover the outstanding lease rents from Kotagala Plantation Ltd; and the progress thereof had been requested through the letters dated 2022.04.05 and 2022.08.29.

4. Good Governance

4.1 Internal Audit

| Audit Observation  | Comment of the Chief Accounting Officer  | Recommendation   |
|--|--|--|
| An Internal Auditor should have been appointed in terms of provisions in Section 40 (1) of the National Audit Act, No. 19 of 2018. Nevertheless, the Ministry had neither established an Internal Audit Unit nor an Internal Auditor been appointed. | Requests had been made to the Ministry of Public Services, provincial councils and local government through the Letter No. SMTR/2/T&R/12/Vacancies dated 2021.07.22, 2021.09.14, 2021.10.28 and 2022.02.03 seeking approval to fill the vacant post of Internal Auditor. Although letters had been sent relating to making appointments to that post, the vacancy in the post of Internal Auditor had not been filled. | An Internal Auditor should be appointed thereby establishing an Internal Audit Unit. |

4.2 Audit and Management Committee

| Audit Observation  | Comment of the Chief Accounting Officer   | Recommendation  |
|--|---|---|
| Four meetings of the Audit and Management Committee should be held within the year in terms of Circular, No. DMA/AMC/M/2021/2 of the Department of Management Audit dated 06 September 2021. Nevertheless, only one such meeting had been held by the Ministry during the year 2021. | Due to non-availability of an Internal Auditor since the inception of this State Ministry, an Internal Audit Unit has not been established as well. Following the Covid-19 pandemic prevailed in the country, internal audits could not be conducted further. | Meetings of the Audit and Management Committee should be held within the year in terms of provisions of the Circular. |