

## Tea Shakthi Fund - 2021

The audit of the operational activities of the Tea Shakthi Fund for the year ended 31 December 2021 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 the Financial Act No. 38 of 1971.

### 1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018. The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the financial statements which should be submitted to the Auditor General within 60 days after the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/ 2004 of 24 February 2004 and approved by the Board of Governors for the years 2017, 2018, 2019 and 2020 had not been submitted for audit even by the date of this Report.

## 2. Audit Observations

### 2.1 Maintenance of books of accounts and records

Even though the activities of the Fund had been continued, the other books and documents including Ledger Accounts, Register of Fixed Assets, Register for Fixed Deposit for the year under review had not been maintained in an updated manner.

### 2.2 Existence of Assets and Liabilities

Details of assets and liabilities shown in the last audited financial statements of the Fund as at 31 December 2016 are given below.

Description	Value (Rs.)
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<b>Assets</b>	
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Non-current Assets	320,784,701
Current Assets	322,856,753
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<b>Total Assets</b>	<b><u>643,641,454</u></b>

**Liabilities**

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Equity Capital	(142,264,604)
Non-current Liabilities	461,964,905
Current Liabilities	323,941,153
<b>Total Liabilities</b>	<b><u>643,641,454</u></b>

**2.3 Arrears of Income**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) The Tea Shakthi Fund had made losses continuously and the equity capital of the Fund was gradually decreasing. Accordingly, the equity capital of Rs.124.058 million in the year 2012 had become a negative equity of Rs.111.65 million in the year 2015. On these conditions, the approval had been given assigning the affairs of the Tea Shakti Fund to the Secretary, Ministry of Plantation Industries for restructuring the Fund by the Decisions of Cabinet of Ministers No. CP/16/1224/ 726/015-I dated 13 July 2016 and No. CP /16/1427/726/015-II dated 17 August 2016. The following observations are made in this regard.		
(i) The unpaid lease rent of Horana Fertilizer Warehouse, Mawaralawatta and 12 factories was Rs.127,148,022 in terms of the agreements entered into in respect of the leasing out the factories.	Although the lessees were made aware in writing and verbally called to the institution to pay the relevant amount on several occasions, the payment of the relevant amount has been defaulted giving various reasons. Accordingly, the Walahanduwa and Mahaweli factories have been repossessed and handed over to new lessees and the security deposit amount	Arrangements should be made to recover arrears of installments as per the agreement.

of the respective lessees has been retained for the arrears of lease rent /lease rent. The lease rent/lessees have been informed by now in writing that all the arrears should be paid within a month or the factory will be repossessed and legal proceedings will be initiated to recover the arrears.

- (ii) As the arrangements should be made to levy a delay charge of 1 per cent of the lease rent for each day that the monthly lease rent payable as per the lease agreement which did not pay on or before the first day of the next month, it was observed that sum of Rs.740,132,354 had to be recovered as delay charges payable for non-payment of lease rent 31 December 2021.
- This amount has been determined according to the value of delay charge which is charged at 1% per day mentioned in the agreement and as it is impractical to continuously charge relevant levy by the lease rent /lessees, it is prescribed to review on it by the Committee appointed to submit proposals regarding the problems of the Tea Shakthi Fund considering the requests made to remove it. Accordingly, arrangements are being made to carry out further activities.
- Delay charges should be recovered as per the agreement.
- (b) Although the lessee party should make arrangements to obtain an insurance policy in the name of Tea Shakthi Fund based on the value corresponding to the monthly fresh tea leaves capacity of each factory at the time of commencement of its production activities in terms of Section 07 of lease agreement, these factories had not taken actions accordingly even by the date of audit.
- The Lease rent /lessees have taken out an insurance pertaining to the asset value of the factory. A copy of the relevant insurance policy has been given to Tea Shakthi Fund.
- Lessees should be informed to get an insurance policy in the name of Tea Shakthi Fund.

### 3. Operational Review

#### 3.1 Management Activities

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
<b>(a) Kotmale Tea Shakthi Factory</b>			
The Management of the Tea Shakthi Factory was handed over to Nugegoda Raigam Plantation Pvt. Ltd. for a period of 10 years from 30 January 2017 to 29 January 2027 through a Memorandum of Understanding and the following deficiencies are observed in this regard.			
<b>(i)</b>	A grace period of two months was given to pay the lease rent from the date of commencement of the contracted period and both parties had agreed through this Memorandum of Understanding to charge the delay charge of 1 per cent for every day of delay from the monthly lease rent. Nevertheless, out of total installment receivable up to 31 July 2022 amounting to Rs. 40,185,000, the amount received by the Fund was Rs. 4,617,000 which was only 11 per cent from the date this factory was handed over on lease basis. The lessee had last paid a lease rent of Rs. 627,000 on 11 July 2019 and after that, no lease rent whatsoever had paid for a period of 02 years. Accordingly, the sum of arrears of installments and arrears of delay charges for this factory as at 31 July 2022 had been Rs. 322,718,895.	The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the factory and recover all receivables. Accordingly, it is prescribed to take further actions in future.	Monthly lease rent should be deposited in bank within the next 10 days and if the lease rent for 02 months are defaulted, arrangements should be made to take actions to recover the arrears of lease rent.
<b>(ii)</b>	Lessee had informed that as a result of many of the machines were in a very poor condition and it was not possible to produce good quality finished tea in this factory, both the furnaces were in	It has been indicated that tea production has not been able to continue due to the existing difficulty in obtaining the fresh tea leaves on the competition among	Actions should be taken to preserve assets and to effectively transfer unused factories to

a dilapidated condition, and huge expenditure has been incurred to repair the building had caused the delay in the commencement of production at the factory. Since the establishment of the factory, tea production had not been carried out continuously up to now and the production was carried out only a few months from the beginning and after that no production was done in the factory up to now. Nevertheless, the factory was closed from 2018 to July 2020 during the investigations carried out by the Tea Board officers and it had been observed that the factory building was in good condition. Although the factory was closed during the inspection conducted by the Tea Inspector again on 19 November 2021, it had been stated that the machines had remained in good condition.

05 factories around the factory.

another parties.

- (iii) The production capacity of Kotmale Tea Shakthi Factory was 38,000kg of finished tea per month. As per the information of the Tea Board, production activities were done only in February 2021 after October 2019, an amount of 807 kg of finished tea had been produced. Similarly, the production activities of 05 private factories around it had continued successfully and it was observed that the production activities of the Mahaweli Tea Shakthi Factory belonging to the Fund are being maintained with significant progress. Similarly, without renewing the factory registration in the year 2020, the production activities had been started in the months of July and August as per the letter of Assistant Tea Commissioner, Nuwara Eliya dated 15 September 2020 and a sum of Rs.3,914,019 had to be paid to the fresh tea leaves holders for the fresh
- Both parties have agreed the on the responsibility of obtaining tea production license on payment of fees as per agreement and the responsibilities of all related expenses to be paid during the agreement period.
- Production should be carried out subject to the rules and regulations imposed on tea production.

tea leaves obtained during those months. Accordingly, due to failure to register the tea factories in the year 2021, the license had been temporarily cancelled by the Sri Lanka Tea Board.

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| (iv) | An electricity bill charge of Rs. 639,803 had also been defaulted by the lessee to the Ceylon Electricity Board.  | The lessee has been informed in writing to pay the relevant arrears and if not done so, necessary arrangements are being done to carry out necessary legal proceedings for that in future.  | After informing by 2 months written notice of breach of agreement, the agreement should be cancelled and arrears of electricity bills should be recovered from the deposit of the lessee.   |   |
| (v)  | It was observed in audit that due to failure to operate the production activities of the factory, existence of arrears payable to external parties and large amount of arrears of lease rent and destruction of assets in the factory, the objective of the purpose of leasing this factory had not been fulfilled. | Necessary arrangements are being made to correct the relevant situation as indicated in (b) above .   | If the terms of the lease agreement are breached continuously arrears of lease rent should be recovered from the responsible parties in accordance with the lease agreement.  |   |
| (b)  | <p><b>Mahaweli Tea Shakthi Factory</b></p> <p>The Management of Mahaweli Tea Shakthi Factory had been handed over to Meegahathenna Aruna Tea Factory (Pvt.) Company for a period of 10 years from 06 August 2019 to 05 August 2029. The following matters was observed in this regard.</p>                          | <p>The Tea Commissioner had confirmed on 30 November 2020 that the level of sucrose exceeded the standard as per the laboratory tests of the samples taken from the tea stocks that had been submitted to the tea auction from this factory. Accordingly, the production at the factory had been suspended.</p> | <p>Since such a situation has not been reported to the Tea Shakthi Fund so far, it is impossible to express a statement on agreeing or disagreeing thereto. However, it is informed that the arrangements will be made to take further actions by inquiring from the Sri Lanka Tea Board about the situation.</p> | <p>The problem should be solved after consulting the Tea Board.</p> |

Further, due to failure to rectify the above defects during the factory inspection conducted by the Tea Board officers on 30 June 2021, the registration of the factory had been suspended from 27 July 2021. Accordingly, the tea production had been stopped in the factory after that day. As a result of the difficulties in bringing fresh tea leaves suppliers to the factory and due to competition from surrounding factories and difficulty in running the factory profitably with small quantity fresh tea leaves with low quality, the collection of fresh tea leaves had been stopped from 15 December 2021. The Management of the Passara and Keppetipola tea factories had also been obtained on lease rent by Aruna Tea Factory Private Company and the approval had been sought to use this Mahaweli Factory to produce rejected tea in those two factories and the Clarendon Tea Factory. Accordingly, the permission had been granted for this factory to run as a rejected tea factory as per the letter of Deputy Commissioner of Tea dated 01 February 2022 .

Agree.

The factory should be directed to produce fresh leaves with standard quality.

**(c) Mawarala Tea Factory**

The Management of the Mawarala Tea Factory had been handed over to Greenline First Pvt. Ltd. for a period of 10 years on 28 April 2017. The following observations are made in this regard.

- (i) Out of the total amount of installments to be charged from the date of leasing out this factory to 31 January 2022 amounting to Rs. 23,652,000, the amount of lease rent to be paid to the Tea Fund was Rs. 810,000 and it was observed in audit that it was 3.42 per cent out of the total amount.
- The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the
- Arrears of lease rent should be recovered from the responsible parties by following legal proceeding as per the agreement .

factory and recover all receivables. Accordingly, it is prescribed to take further actions in future.

- (ii) Arrangements had not been made to produce tea daily since the day this Factory was handed over to Greenline First Company up to now. Similarly, the outstanding amount to be paid to the suppliers who supplied fresh tea leaves to this tea factory for the months of May and June 2019 had been Rs. 636,328 .
- The amount payable for the supply of factory and supply of fresh tea leaves during the contract period should be paid by the lessee as per the agreement entered into and necessary steps are expected to be taken in this regard at the time of cancelling the agreement and taking legal actions to recover the arrears.
- It should interfere to pay the arrears of the fresh tea leaves suppliers.
- (iii) The lessee had indicated that it was difficult to pay the monthly installments by not being able to carry out the finished tea production due to outdated machinery and non-functioning wood stove in the tea factory and the failure tea production for 03 years. Similarly, it had been informed that although the lessee had expected that the loan assistance can be obtained through the banks and the foreign exchange can be invested in the business through the bank, the financial difficulties had occurred and an exemption on leases were also expected accordingly .
- A lessee has been selected by following the tender method submitting proposals for the factory by the lessee after examining the situation at the time of the leasing of the factory and it is not possible to consider the facts presented in this regard after entering into lease agreement.
- Arrears of lease rent should be recovered from the lessee in accordance with the agreement.
- (d) **Mawarala Watta**
- (i) The amount of lease rent paid by the lessee on 30 April 2022 in respect of this property which was acquired on lease by Walahanduwa Green Line First Pvt. Was 52 per cent of the total lease rent and the total arrears of installment to be received to Tea Shakthi Fund had been Rs. 10,300,000 .
- The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the factory and recover all receivables. Accordingly, it is prescribed to take further actions in future.
- Arrears of lease rent should be recovered from the responsible parties by following legal proceeding as per the agreement .



- (ii) The tea cultivation in this land with 100 acres of land owned by Tea Shakthi Fund was 42 acres and also has a tea plant nursery. Likewise, two tea plant nurseries should be maintained in this land as per the Section 19 of the agreement and the lessor had agreed to maintain the tea plant nurseries maintained by the Small Tea Plantation Development Authority and the other nurseries to be maintained by the lessee and to maintain the existing mother plantation as it is. The tea should be replanted in 12 acres, as 02 acres per year in the leased property in terms of clause 18 of the agreement entered into with the lessor and the lessee party had also agreed to plant tea. Accordingly, it had been indicated that the Company was impossible to get the expected yield while harvesting, in the report of the Committee on giving recommendations to resolve the issues regarding asset management and collection of lease in the Tea Shakthi Fund dated 04 August 2021.
- Although the lessee has replanted less than the amount specified in the agreement, it has been ascertained that the yield has decreased due to non-fulfillment of the matters informed by the lessee as per the agreement. Accordingly, it does not agree to grant relief on lease on his request and if the lessee fails to pay the arrears as mentioned in (a) above I expect to recover the relevant money and to take legal actions in future.
- The lessee should be made aware as the tea plant nursery and tea plantation should be properly maintained as per the terms of the agreement.
- (iii) A 10 years period of lease will be in effect subject to review for a period of 05 years up to 27 April 2027 in terms of Section (I) of the Agreement entered into on 28 April 2017. Nevertheless, although 4 years had elapsed since this property was handed over as lease, it was observed as per the letter of the lessee dated 01 March 2021 that the boundaries were not properly had not been properly surveyed and the plot allotted within the 100 acre limit of this estate.
- The land has been handed over to the Survey Department in the year 2019 for surveying and the certified copies of the respective plan have been given to the institution at present. Accordingly, necessary steps are being taken to solve the related problems in future.
- The land should be surveyed and the property should be properly handed over to the lessee.

(e) **Deniyaya Tea Shakthi Factory.**

The approved finished tea capacity of Sri Lanka Tea Board is 35,000kg per month regarding this factory which was leased by Walahanduwa Green Line First Pvt. Company. The following matters were observed in this regard.

- (i) The lessee had leased this factory for a period of 10 years from 17 November 2016 to 16 November 2026 and the lease rent paid was 37 per cent of the total lease rent. Accordingly, the arrears of lease rent installment as at that date had been Rs. 24,187,837 .
- The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the factory and recover all receivables. Accordingly, it is prescribed to take further actions in future.
- Arrears of lease rent should be recovered from the responsible parties by taking legal actions as per the agreement.
- (ii) As per the Sri Lanka Tea Board information, there were also the months in which the production of tea and receiving fresh tea leaves in Deniyaya Tea Shakthi Factory in 2019 and 2020 exceeding the factory's monthly finished capacity and fresh tea leaves capacity approved by the Tea Board and the registration of Deniyaya Tea Factory has been updated for the year 2021 as well. Nevertheless, as there are competing factories around Deniyaya Tea Factory, the lessee had not paid the monthly rental properly by giving unacceptable reasons such as having to get fresh tea leaves at competitive prices, low efficiency and high maintenance cost due to outdated machinery and as a result, inability to get proper price in the tea market due to inability to produce to a proper standard.
- In calling bids by tender procedure to select a lessee, a lessee has been selected and contracts entered into as per the suggestions made after checking the condition of the respective factory. Accordingly, the lessee is responsible for tea production management in the factory and since it has been ascertained that the facts submitted for defaulting of lease rent installments are not reasonable, in case of default in payment of arrears as per (a) above, legal actions are expected to be taken in future.
- Arrears of lease rent should be recovered without delay.

**(f) Balangoda Tea Shakthi Factory**

- (i)** The factory had been handed over on lease basis for 10 years from 11 April 2017 and only tea production had to be done there. During the inspection conducted by the officers of Sri Lanka Tea Board in respect of adoption of Good Manufacturing Practices on 09 June 2020, the value of Goods Manufacturing Practices (GMP) was 47 per cent. The attention had been drawn on decaying the roof and roofing sheets of the factory building and leaking rainwater, contamination in Withering Section due to arrival of birds through rotting window panes of the building, deterioration of quality since water evaporates and were absorbed into the tea, decaying of the Withering Section, being piled up of the finished tea on the floor and mixing of the tea with sand and waste due to the floor of the factory was damaged. As result of those matters, the production at the plant was suspended from 27 July 2021.
- The tea production activities have been commenced as per the approval of the Sri Lanka Tea Board by rectifying the situation.
- The lessee should be made aware to maintain the buildings properly and run the factory in accordance with good manufacturing practices .
- (ii)** A lease rent of Rs.360,000 had to be received to the Tea Shakthi Fund for the year 2021.
- Although the installment payments are not made during the period of 04 months which production activities were suspended as mentioned in (a) above, the relevant installments are being paid properly after the commencement of the production activities.
- Only the relevant factory building has been handed over by the institution to the lessee and all machineries have been invested by the lessee. Accordingly, a grace period has been given to the lessee to pay the relevant outstanding amount in 06 equal installments considering matters such as investing a lot of money in the factory by him for the factory and
- The arrears of lease rent should be promptly recovered as per the agreement.

payment of installments properly during the time of the production in terms of the agreement.

**(g) Gileemale Tea Factory**

The Management of this Factory was given 24 on November 2016 on lease base for a period of 10 years to a private lessee in Ratnapura area. The following observations are made in this regard.

- (i)** The amount of installments to be received to Tea Shakti Fund as at 01 March 2022, had been Rs. 9,775,500 and the total amount, including installments and delay charges for arrears had been Rs.76,973,660. This lessee had not paid any amount to Tea Shakthi Fund from January 2020 to 01 March 2022. The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the factory and recover all receivables. Accordingly, it is prescribed to take further actions in future. The arrears of lease rent should be collected according to the agreement.
- (ii)** Even though a request was made by the lessee to continue the operations of the factory, due to the fact that the Sri Lanka Tea Board did not carry out the tea production in this factory with the proper standard and artificially added the prohibited sugar called fructose in the production, the tea production license had been cancelled from 30 November 2021 to 30 March 2022 . Similarly, it had been ascertained by the letter of the Deputy Commissioner of Tea dated 27 June 2022 that the stocks of tea offered by this Factory for tea auction during the Tea Board laboratory test, the tea contained a type of sugar called fructose exceeding the standard value in the low-country. It is agreed in the terms of the lease agreement that the production carried out by the lessee party should be done in a manner that does not violate the laws imposed by the government institutions. However, as it has been observed that the lessee of the respective factory continues to breach the terms of the agreement, it is expected to carry out further activities as indicated by (a) . Actions should be taken to take over the factory since illegal acts have been done in contrary to Section 10 of the Agreement.
- (iii)** The arrears of fresh tea leaves to be paid to supplier within 05 years from 2017 to 2021 by Gileemale Tea Shakthi Factory had been It has been agreed by the terms of the lease agreement that the production carried out by the lessee party should be carried out in a It should interfere to pay the arrears of the fresh tea leaves suppliers.

Rs. 59,234,288 .

manner that does not violate the laws imposed by the government institutions. However, as it has been observed that the lessee of the respective factory continues to breach the terms of the agreement, it is expected to carry out further activities as indicated by (a) .

- (iv) In the investigation conducted by Ratnapura Regional Development Officer and two Assistant Managers of Tea Shakthi Fund on 28 February 2022 in respect of these factory goods, it had been observed that the fixed assets of Tea Shakthi Fund were not properly maintained and safeguarded as a result of removing the drying machine (Drier) provided by the Keppetipola Factory outside the factory as per the request made by the lessee, failure of maintaining the factory land properly and arising problems related to the boundaries of the land .
- The lessee has already been made aware to install the respective machine.
- The respective authorities should take actions to safeguard the assets.
- (h) Elpitiya Tea Shakthi Factory**
- (i) As per the Internal Memo of Assistant Commissioner of Tea, Baduraliya dated 22 March 2021, as the factory receives the fresh tea leaves from unapproved, unlicensed traders from the year 2019 onwards and also it is a violation of the circular provisions of the Tea Commissioner, a sum of Rs. 10,000 had been fined. It was also observed that the Tea Shakthi Fund should do follow-up activities in this regard.
- The relevant situation has not been reported to the Tea Shakthi Fund so far and it is informed that the necessary measures will be taken to avoid such a situation. However, the lessee party has agreed that the tea production should be done in a manner that does not breach the rules and regulations imposed by the government institutions.
- The lessee should be informed not to purchase fresh tea leaves from unapproved suppliers.
- (ii) It was observed that the arrears lease rent to be received to Tea Shakthi Fund had been Rs. 2,150,000 by 31 May 2022 .
- The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to do so, the lessee has been informed in writing by now as the legal actions will be taken.
- Arrears of lease rent should be recovered without delay.

**(i) Raigam Korale Tea Shakthi Factory**

The Management of Raigam Korale Tea Shakthi Factory had been handed over to Dikhena Small Tea Estate Development Society for 5 years from 10 June 2016 to 10 June 2021 and the following observations were made in this regard.

- (i) Even though the Dikhena Small Tea Estate Development Society had taken over the management of this Factory on lease basis agreeing the amount of Rs. 5,593,360 that had to be paid to the external parties to those fresh tea leaves holders and a monthly lease rent of Rs. 250,000 had also been agreed to be paid to the Tea Shakthi Fund, in contrary to that agreement, Dikhena Small Tea Estate Development Society entered into a new joint agreement with Epin Forest RTS Plantation (Private) Company on 11 May 2018 and accordingly, the production of tea in the factory had been started for only 6 months on 05 October 2018 .
- As the Tea Shakthi Fund is an institution established for the economic development of small tea plantation owners, the Dikhena Small Tea Estate Development Society which was formed by the membership of the small tea estate owners, has provided more opportunities for the management of the respective factories. However, the Factory has been repossessed and handed over to the Raigam Small Tea Estate Development Society due to continuous failure of Management and non-payment of lease rent installments.
- It should interfere to pay the arrears of the fresh tea leaves suppliers. The arrears should be recovered from the responsible parties by proceeding legal actions as per the agreement.
- (ii) As per the information of the Deputy Commissioner of Tea, an amount of Rs. 24,259,520 had to be charged to the fresh tea leaves holders for fresh tea leaves at the time of taking over the factory from the Dikhena Small Tea Estate Development Society to the Tea Shakti Fund again. Similarly, a lease rent of Rs. 8,156,640 as at 31 December 2021 had to be recovered to the Tea Shakti Fund from Dikhena Small Tea Plantation Society. The electricity in the factory was disconnected and it was also identified that the motor vehicles and machines of the Factory were not available in the Factory. Although the Dikhena Small Tea Estate Society had breached
- The Tea Shakthi Fund has worked with the Dikhena Small Tea Estate Development Society which was taking the lease rent as per the agreement until the Society took over the factory again and the Society has agreed to recover the arrears. Accordingly, Tea Shakthi Fund has not interacted with any other third party lessee as per the agreement.
- It should interfere to pay the arrears of the fresh tea leaves suppliers. The arrears should be recovered from the responsible parties by proceeding legal actions as per the agreement.

the agreement with Tea Shakti Fund in this way, it was observed that the effective steps had not been taken to recover all the money receivable to the Tea Shakti Fund.

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| (iii) | <p>The Raigam Small Tea Estate Development Society had agreed to an Memorandum of Understanding to take over the Management of the Raigam Korale Tea Factory on lease basis again for a period of 10 years from 20 January 2021 to 19 January 2031 . Although the Raigam Small Tea Estate Development Society had agreed to pay the management fees of Rs.600,000 per month as per the lease agreement and to pay the amount of Rs.23,302,826 payable from Dikhena Society to the party that supplied the fresh tea leaves to those parties, the amount of lease payable by this society to the Tea Shakti Fund as at 31 December 2021 was Rs. 3,600,000 and the above arrears of fresh tea leaves had also not been paid.</p> | <p>The due dates have been given for the relevant outstanding amount to be paid before 12.10.2022 and if it is failure to pay so, the lessee has been informed in writing by now as the legal actions will be taken to cancel the agreement without further notice and repossess the factory and recover all receivables. Accordingly, it is prescribed to take further actions in future and the outstanding tea leaves were also not paid.</p> | <p>The arrears should be recovered from the responsible parties by taking legal actions as per the agreement.</p> |
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### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Tea Shakti land boundaries had not been accurately identified and surveyed and due to having to take legal measures to settle the illegal residents of those lands, it had become an additional cost to the Fund.	External parties belonging to the Tea Shakti Fund have filed necessary cases to get settled the plots of land owned by external parties belonging to Tea Shakti Fund and necessary activities are being carried out with the help of the Survey Department, for re-surveying with the aim of settling the boundaries of other lands.	Activities of Management should be carried out in a manner of minimizing litigation.
(b) The Fund had filed two cases against a person for unauthorized acquisition of a part of the land belonging to the Mahaweli Tea Shakti Tea Factory and for the	Agree.	Proceedings should be expeditiously brought to end.

construction of a garage by a person on a land of 5.41 perches belonging to the Balangoda Tea Shakthi Tea Factory.

- (c) A loan was provided subjected to maximum limit of Rs. 07 lakhs under the Activation of Dormant Plant Project initiated by the Tea Shakthi Fund and cases had been filed against 05 tea factories to recover the money receivable to the Tea Shakthi Fund after the expiry of the relevant contract period.
- Cases have been filed against all the Management Factories that had outstanding loans under the relevant Project and actions have been taken to recover the debts given for certain factories by judgments of the courts.
- Activities of Management should be carried out in a manner of minimizing litigation.
- (d) The objectives of restructuring of Tea Shakthi Fund were to provide benefits to the shareholders from the income from leasing the factories and taking actions to return the amount of Rs. 135 million used for the activities of the factories from the Welfare Insurance Fund to that Fund and after that crediting the remaining lease rent income to the Consolidated Fund. Nevertheless, although it had elapsed almost 5 years since the Fund was restructured, the Fund had impossible to achieve its objectives due to failure to receive factory lease rent income as expected. Even though a lease rent income of Rs. 165,806,868 had been earned from the Management and leasing out the assets of Tea Shakthi Fund as at 31 December 2021, a mechanism had not been introduced for the continuation of the Welfare Insurance with the amount of Rs. 135 million given for the factory work from the Welfare Insurance Fund.
- Money related to the value of Rs.135 million in Welfare Insurance Fund has been invested in fixed deposit accounts called Tea Shakthi Fund. The money of the Fund is used by the relevant Fund only for the provisions required to maintain the Group Life Insurance of the Members of the Tea Shakthi.
- Actions should be taken in terms of the agreement to achieve the objectives of restructuring the Fund as per the Decision of Cabinet of Ministers.



### 3.3 Resources Released to other Organizations

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- When assigning of permanent staff to other institutions under the Ministry, arrangements should be made at the discretion of the respective institution and staff salaries and allowances based on the existing budget allocations of those institutions as stated in the observations of the Minister of Finance for the Decision of Cabinet of Ministers No. CMP/16/1224/726/015-I dated 13 July 2016, which approved the restructuring of the Fund. Nevertheless, three Management Assistant Officers had been released to the Rubber Development Department and a driver to the Small Tea Estate Development Authority and a sum of Rs.1,459,614 and Rs.1,822,298 had been paid from the Fund as salaries for those officers in the years 2018 and 2019. Similarly, a sum of Rs.1,587,324 in 2020 and Rs.1,715,940 in 2021 had been paid for two Management Assistant Officers and a Driver.	----- Relevant appointments have been made on the basis of vacancies in the respective institutions and basic activities required to take further action on it have been commenced by now.	----- Salaries paid to officers released to an external institution should be reimbursed.

### 3.4 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- External parties had filed one case in the Supreme Court and 33 cases in the Labor Tribunals against the Tea Shakthi Fund.	----- Agree.	----- Actions should be taken in accordance with circulars and Decisions of Cabinet of Ministers on termination of service of staff