

## **Tea Research Board 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Tea Research Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity 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 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 effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2021, and of its financial performance and its 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 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 Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board,
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Audit Observations on the preparation of Financial Statements**

**1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with reference to relevant standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) Although the 92 vehicles belonging to the Tea Research Board with a fully depreciated cost of Rs.101,864,100, ten vehicles belonging to St. Joachim Estate with the revalued amount of Rs. 12,168,584 , eight vehicles belonging to St. Coombs Estate cost at Rs. 7,094,000 and machinery and equipment cost at Rs. 31,792,070 were further being used at the end of the year under review, actions had not been taken to disclose with regard to that in accordance with Paragraph 92 (b) of Public Sector Accounting Standards No. 07 and actions had not been taken to revalue and re-state the estimated error on these assets in the financial statements in accordance with Sri</p>	<p>The Valuation Committee including Nuwara Eliya Chief Motor Vehicle Inspector have already commenced the assessment process by inspecting the vehicles in the Thalawakele Centre. The assessment of vehicles in all other sub-centres and estates is expected to be completed in the year 2022 and actions will be taken to account for after receiving of relevant reports.</p>	<p>The effective life of assets that are fully depreciated but still in use should be revalued and accounted for.</p>

Lanka Public Sector Accounting Standard No. 03.

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| <p>(b) In calculating the net cash flows generated/used from operating and investing activities in the statement of cash flows values of Rs. 3,340,023 and Rs. 3,683,396 respectively had been adjusted incorrectly and interest expense paid amounting to Rs.4,123,220 and interest income received amounting to Rs. 4,518,953 had not been properly and separately disclosed in the cash flow statement. Due to this, it was observed during the audit that the cash flow statement presented with the financial statements was not prepared as per the terms of Sri Lanka Public Sector Accounting Standard No. 02 .</p> | <p>The interest of Rs.1,108,864 received has not been wrongly accounted for and this is an error occurred by the submission of Rs.1,018,864 under sundry income separately as cash receipts only from distress loan interest and rental income and all interest receipts (Rs. 4,518,953/-) and payments (Rs. 4,123,220/-) have been shown under the net surplus/deficit for the year by a mistake and actions will be taken to show separately under investment activities accurately in the year 2022 .</p> | <p>The cash flow statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.</p>                          |
| <p>(c) Although the value of biological assets should be assessed and accounted for, in accordance with Paragraph 16 of the Sri Lanka Public Sector Accounting Standards 18, a number of 5,654 valuable high shade trees in Thalawakele, Ratnapura, Hanthana, Passara and Kottawa Regional Offices had not been estimated and stated in the financial statements.</p>   | <p>The appointment of a Committee for the assessment of 5,654 high shade trees of the Tea Research Institute has been approved as per the Minute of the Board Meeting 2022/06 held on 24 August 2022 and after appointing a Committee including an officer from the Department of Wild Conservation, it is expected to carry out the plant assessment works and accounting activities to be done after receiving the relevant reports.</p>   | <p>The value of biological assets should be assessed and accounted for in accordance with Sri Lanka Public Sector Accounting Standards.</p> |

**1.5.2 Accounting Deficiencies**

Audit Observation	Comments of the Management	Recommendation
<p>(a) The income tax amounting to Rs. 1,131,041 to be paid on</p>	<p>Although the Tea Research Institute has sent a letter on</p>	<p>The amount of income tax</p>

investment interest income of Rs. 4,712,672 in the year 2021 had not been accounted for.

05.04.2021 to the Secretariat Section of the Interpretation Committee of the Inland Revenue Department asking whether the income tax is required to be paid on the interest income received, a reply has not been received so far. Therefore, a reminder letter has been sent on 08.09.2022 and further actions are expected to be taken based on the replies receive to the letter.

payable on investment interest income should be accounted for as per Inland Revenue Act.

- (b) In making provision of 05 per cent for bad debts on debtors as per accounting policy of the Board, the provisions had not been made in respect of sundry debtor balances of Rs. 999,406 and Rs. 406,143 included in the Estates of St. Coombs and St. Joachim respectively.

The accounting policy of the Tea Research Institute is to make a provision of 05 per cent for bad debts in respect of debtor balances. The accounting policy for provision for bad debts of the Board was not applied to the St. Coombs and St. Joachim Estates by a mistake and the said policy will be applied and the final accounts will be prepared from the year 2022.

Provisions for bad debts should be made in accordance with accounting policies.

- (c) Even though 03 vehicles which were given by Sri Lanka Tea Board had been revalued to Rs. 7,413, 550 and shown in the financial statements, the ownership of the vehicles had not been taken over by the Tea Research Board. Likewise, this had not been revealed even in the Notes to the financial statements.

Arrangements are being made to take over the ownership by sending these three vehicles which are not currently in running condition for repair after obtaining emission reports and obtaining revenue license. Actions will be taken to disclose the vehicles that have not been transferred to the Tea Research Institute through the notes to account in future.

The ownership of the vehicles should be taken over immediately. Until that is done, it should be disclosed the notes on the 3 vehicles.

## 1.6 Accounts Receivables and Payables

### 1.6.1 Receivables

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Steps had not been taken to recover the analytical income receivable from the tea plantations to the Tea Research Institute amounting to Rs. 346,320 from the year 2017 to the year 2021 .	Actions will be taken to recover this balance during the year 2022 .	Analytical income receivable should be collected promptly.

### 1.6.2 Payables

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Actions had not been taken to settle the creditor balances of Rs.1,791,492 payable to sundry stock suppliers remaining from 2010 and for more than 02 years at St. Coombs Estate even by the end of the year under review.	Actions will be taken to recover this balance in future.	Steps should be taken to settle these creditor balances or to credit to revenue if ascertained that had not claimed.

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

<b>Reference to Laws, Rules and Regulations</b> -----	<b>Non-compliance</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Financial Regulation of Democratic Socialist Republic of Sri Lanka (i) F. R. 571 (3)	Even though there was a retention of Rs.3,551,559 from the contracts from the	Due to deficiencies in the contracts, the retention money has	Steps should be taken to credit to revenue if it is

	<p>year 2015 to the year 2019 had remained for more than 02 years, actions had not been taken to settle.</p>	<p>been brought forward in the accounts without being released.</p> <p>An amount of Rs. 2,623,897 has been settled so far and necessary actions are being taken to release the remaining amount of Rs.927,662 retained by the Tea Research Institute for more than 02 years to contractors who had rectified the deficiencies pointed out.</p>	<p>ascertained to be settled or unclaimed.</p>	
<p>(ii) F. R. 756 (9)</p>	<p>Although the Board should forward the Boards of Survey Report for the year 2021 to the Auditor General before June 15 of the next financial year, it had not been so done even by 31 July 2022 the date of audit .</p>	<p>The Boards of Survey related to the year 2021 has not been completed yet. Due to the problem of providing transport facilities, the inspection and collection of the goods to be removed from the sub-centers has also been delayed.</p> <p>After completing the above activities, actions will be taken to submit the relevant report to the Auditor General before the end of the year 2022 .</p>	<p>The annual Boards of Survey report should be forwarded to the Auditor General as per the Financial Regulations.</p>	
<p>(b)</p>	<p>Section 13. 3 of Chapter II of Establishments Code of the Democratic Socialist Republic of Sri Lanka</p>	<p>Although an acting appointment should be made on a temporary basis until a permanent appointment is made, the appointment of posts of Additional Director, post</p>	<p>Interviews were conducted on 01 February 2021 and selected on 05.04.2021 to fill the post of Additional Director.</p> <p>The applicant selected</p>	<p>Permanent appointments should be made instead of acting appointments to approved posts.</p>

of Senior Accountant, 01 post of Engineer, 04 Heads of Divisions, 04 more posts of the Board had made on acting basis without making regular appointment from year 01 to year 09 and a sum of Rs. 1,508,773 had been paid as acting allowances during the year under review .

for the post of Senior Accountant is working in Tea Research Institute since 02 March 2022.

The candidates who had selected to fill the post of Residential Engineer and other candidates in the waiting list were also refused to accept the appointment. The 04 Divisional Head posts are internal promotions and as there are no qualified internal applicants the appointment of officers has been made on the basis of covering of duties. The officer recruited on 05.03.2021 for the post of Network System Administrator has resigned on 08.27.2021.

Although the applications were invited to fill up the vacancies of Technical (MA 2-2) Management Assistant and Management Assistant (Warehouse), as it has been advised to temporarily suspend recruitment to public sector posts by Circular No.s BD/CBP/01/01/04 and National Budget Circular No. 03/2022



dated 26.04.2022, an officer has been appointed on the basis of Attending to the Duties for the post of Management Assistant (Warehouse).

Necessary actions will be taken in future by the Ministry of Plantation Industries to be recruited on special approval of Management Services Department considering the service requirement.

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| <b>(c)</b> | Public Enterprises Circular No. PED / 12 of 02 June 2003 and Section 11 of the Finance Act No. 38 of 1971 | Although the concurrence of the Minister of Finance and the relevant Minister should be obtained in investing money, such an approval had not been obtained when investing Rs. 81,980,000 in short-term deposits the Board as at 31 December 2021 . | After obtaining the approval of the Tea Research Board in the year 2008 and in the year 2013 for the funds maintained until the year 2008 and the fixed deposit of Rs.81,980,000 for the year 2021 made up of the income of the St. Joachim Estate have been invested in short-term deposits for gratuities at the Tea Research Institute. | The approval of the Minister of Finance and the respective Minister should be obtained while investing the money.      |
| <b>(d)</b> | Section 9.14 of Public Enterprises Circular No. PED / 12 of 02 June 2003                                  | Although a procedural manual for the formulation of rules and regulations for the Human Resource Management should be prepared and the approval of the Secretary to the Treasury should be obtained, actions had not                                | By following the procurement method, the quotations were called for the preparation of the office manual at this time and accordingly, the approval of the Departmental  | Rules of procedure for Human Resource Management should be prepared and submitted for Treasury approval without delay. |

been so taken by the Board accordingly.

Procurement Committee (Minor) has been received for the preparation of the office manual from Sri Lanka Institute of Development Administration (SLIDA). Accordingly, the Sri Lanka Development Administration (SLIDA) has been informed to complete the preparation of the office manual within 03 months. The office manual is expected to be prepared and forwarded to the Treasury for approval accordingly.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 70,206,000 and the corresponding deficit of the preceding year was Rs. 48,058,726. Accordingly, a deterioration of Rs. 22,147,274 in financial results was observed. The increase in the deficit of the St. Joachim Estate and St. Coombs Estate by Rs. 34,291,896 as compared to the previous year had mainly attributed for this deterioration.

### 2.2 Trend Analysis in Major Revenue and Expenditure Items

The main income and expenditure items of the year under review compared with the preceding year are as follows.

Item	2021 Rs.' 000	2020 Rs.' 000	Variance Advantages/ (Disadvantages) Per cent
<b><u>Revenue</u></b>			
Total Income	437,774	477,732	(8)

Other Income	23,037	29,235	(21)
Loss of two Estates of St. Joachim and St. Coombs	52,662	18,370	(187)
<b><u>Expenditure</u></b>			
Other Expenditure	3,613	1,934	(87)

The other incomes of the year under review had decreased by 21 per cent as compared to the previous year and the income on analytical services decreased by 40 per cent and interest on investments decreased by 30 per cent for that and increase of losses on the St. Joachim and St. Coombs Estates by 187 per cent had mainly attributed decrease in revenue by 8 per cent.

### 2.3 Ratio Analysis

It is observed that an increase in current ratio of 2.25:1 reported preceding year as 3:1 in the year under review and the quick assets ratio as 2.2 : 1 as against 1.6 : 1 ratio in previous year. It is observed that the increase in both these ratios has been directly influenced by the increase in cash and cash equivalents at the end of the year under review by 130 per cent as compared to the previous year. The Board had failed to maintain the most suitable quick asset ratio of 1:1 by making investments in a manner that generates higher financial returns than cash and cash equivalents.

## 3. Operating Review

### 3.1 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>Even though four years had elapsed for an equipment ( Walk in Type Environmental Facility ) which was purchased from India incurring a sum of Rs. 12,554,583 on 24 November 2017 for special projects, it could not be used for researches due to lack of expected functional level as a result of failure of installation and fixing the equipment properly. Actions had not been taken against the Procurement and Technical Committees related to this purchase and the balance of Rs.3,454,050 remained after incurring these expenses from the money received from the Ministry for this Project had been shown under the</p>	<p>The necessary preliminary works have been done to file the complaint of the Arbitration Board in respect of the above matter. Accordingly, the defendant has presented the facts to the Arbitration Board through an affidavit and a copy of the same has been forwarded to the Institute. Actions have been taken to send the affidavit to the Attorney General and the relevant accounting activities will be carried out after the</p>	<p>Legal actions should be expedited and the damages should be recovered.</p>

projects- in -progress in the financial statements. completion of the related legal proceedings.

### 3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Even though the buildings had been constructed at Walahanduwa, Deniyaya and Kottawa Divisional Offices by incurring a sum of Rs. 72,031,804 before the year 2010 and the ownership of those lands is owned by the State Plantation Corporation, Thalawakele Plantation Company and the Government respectively, arrangements had not been made to take over the ownership of those lands to the Board even by the year under review .</p>	<p>The Walahanduwa Estate has been handed over to the Land Reform Commission in the year 2019 through a Gazette Notice. The Sri Lanka State Plantation Corporation has filed an appeal in the Court of Appeal against that judgement. As the Tea Research Institute along with the plot of land of Soil and Plant Analytics Laboratory has been brought under the Walahanduwa Estate belonging to Land Reform Commission at present , the Tea Research Institute has not been able to take over the legal ownership of the plot of land for more than 1 hectare in that had been used by the Tea Research Institute.</p> <p>All the necessary activities to acquire the plot of land used by the Instruction and Extension Centre Kottawa on a long-term lease basis have been completed by now and the Assistant Divisional Secretary, Yakkalamulla has arrived and inspected the land and given recommendations. The Divisional Secretary, Kotapola was met with</p>	<p>Arrangements should be made to take over the ownership of the respective lands.</p>

regarding the acquisition of the legal ownership of the vacant plot of 5 acres, 2 roods, 1.95 perches in Field No. 2 of the upper part of the Deniyaya Estate, owned by the Thalawakele Plantation Company, which runs the Deniyaya Instruction and Extension Centre and she said that the government should first take over the land and transfer the legal ownership of the land to the Institute. Accordingly, necessary actions were taken to obtain a current valuation report of the land and forward the recommendation of the Divisional Secretary to the Southern Provincial Land Commissioner by the Ministry of Plantations and Industries.

- (b) As a result of breaching of the agreements which had entered into in the years 2005 and 2009 with the Board by the 04 officers who had obtained foreign study leave with full pay and not reported back to service after being abroad and left the service before completion of compulsory service after returning to service, it had been impossible to recover the value of the relevant Bond amounting to Rs. 15,054,891 by the end of the year 2021 . Even though the Board had filed legal cases, 02 cases were laid by the court since 2011 because the accused could not be found.

Cases have been filed against the 04 officers who did not return to work in violation of bond agreements.

The main accused, Dr. D.P.B Herath/ Former Research Assistant has gone abroad. Although the judgement was given for the case filed against the guarantors in the Colombo District Court under No. DMR/4019/11 had been finally given, the guarantors have filed an appeal against the judgement.

The main accused Dr. Mrs. B.A.P. Cooray, Former Research Assistant has passed away. A case has

Alternative methods should be looked for and implemented to find information about the accused.

been filed against the guarantors. As the main creditor and a guarantor had now deceased, the case file has been forwarded to the Attorney General to inquire about the possibility of maintaining the case against one of the remaining guarantors.

The main defendant, Dr. Sampath Walgama, the Former Research Assistant has gone abroad. A case has been filed against him and the guarantors. The two guarantors had passed away and the case has been shelved as the main accused has not appeared. However, since it was confirmed that Mr. Sampath Walgama is currently working as a consultant at Lethbridge College, Faculty of Agriculture, Canada, it has been informed in writing to pay back the spent amount of Rs. 4,409,891 to the Institute immediately. An answer for the letter has not been received yet. After referring the matter to the Attorney General, the Attorney General is making the necessary arrangements to send Letters of demand to Mr. Walgama. A case has been filed against the main accused Mr. Lalith Gunathilaka- former Probation Officer. The case has been brought before the court 11 times and the

defendant has never appeared in court. Due to this, the case has been laid by.

- (c) One of the two accused officers had sent a letter to resign from the Institute after the relevant incident was revealed regarding a misconduct that led to a disciplinary investigation during the working hours and the resignation had been accepted by the Director of the Institute in contrary to Section 4.1 of Chapter V of the Establishments Code. Accordingly, the Head of the Institute had not taken steps to summon him for preliminary and formal investigation or to obtain statements.

A preliminary investigation officer has been appointed on 29.05.2019 and a preliminary investigation was conducted with regard to a misconduct during duty hours. Accordingly, a charge sheet has also been issued to one employee. The resignation has been forwarded by the other person related to the said incident by fax i.e. through a letter dated 17.04.2019 to the Disciplinary Authority of the Institute before conducting the preliminary investigation . As there are no grounds to reject the resignation of the Director, Tea Research Institute, the written resignation has been approved by the letter dated 24.04.2019 . Although the Tea Research Institute had requested the resigned accused officer to arrive to the Tea Research Institute on 15.07.2019 to obtain a statement through the letter dated 08.07.2019, he has informed by letter dated 14.07.2019 that he would not be able to attend.

Disciplinary actions should be taken against the Director who had accepted the resignation of an officer who was to face a disciplinary inquiry.

### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) According to the Working Account of St. Coombs and Lamilia Estate, a continuous loss making situation has reported in the estate after 2018 and it was observed that it had increased to a loss of Rs.41,052,214 by the year under review that is, 234 per cent loss compared to preceding year. Further, in comparing the Net Sales Average (NSA) of 01 kg of tea with the Cost of Production (COP) of 01 kg of tea after the year 2018, a continuous rise in production costs is shown and it was further observed that the loss of 01 kg of tea has been recorded as high as Rs.222 in the year under review,</p>	<p>As the daily wages of plantation workers increased to Rs.1,000 from 04 March 2021, it directly affected the increase in the production cost of the Estate. Accordingly, the provisions for gratuity have also been made for the total period of service of the employees and a value of Rs.24,238,454 has been accounted for.</p> <p>Similarly, due to the Covid-19 pandemic 2021, the St. Coombs Estate was quarantined from May to June. At the same time additional cost had to be incurred for cutting and removing mature tea leaves during that period and due to that essential pruning, it had affected the reduce of tea leaves for several months. Similarly, Since there was no increase in the selling price of tea due to the bad economic situation in the year 2021, there was no increase in average value of net sales .</p>	<p>Actions should be taken to achieve profitability through proper management of incomes and expenditures.</p>
<p>(b) The domestic tea sales revenue of the St. Coombs and Lamilia Estate for the preceding year amounting to Rs. 52,574,301 had become Rs.34,587,956 in the year under review and it was observed that the decrease it by Rs. 17,986,345 i.e. 34 per cent as compared to the previous year and decrease of the profit of the Mother Bush Project</p>	<p>As a result of the Covid 19 epidemic situation in the country throughout the year 2021, the considerable decline in tea production has resulted in a decrease in local tea sales income. The Covid 19 epidemic situation in the country throughout the year 2021 affected the decrease of sale of tea shoots in the Mother Bush</p>	<p>Actions should be taken to achieve profitability through proper management of incomes and expenditures.</p>



under the Asian Development Bank assistance and the profit of the Tea Centre by Rs. 1,217,158 had directly affected for the high loss situation that occurred in the year under review .

Project under the assistance of the Asian Development Bank to a significant level and as a result, the profit of the Mother Bush Project has decreased. Likewise, due to the isolation of St. Coombs Estate from May to June, the profit has also decreased as compared to the previous year due to the lack of tea sales at the Tea Sales Centre.

- (c) It was observed that the St. Joachim Estate, which has a total factory capacity of 1,020,000 kg of finished tea annually, was operating at an under capacity of 72 to 85 per cent of that capacity in the previous year and the year under review. It is observed that the lack of attention of the institution for replanting had caused this underutilization situation.

The Advisory Committee on Estates had recommended to operate the factory at reduced capacity till the defects in the factory machinery are rectified and to reduce the loss of the factory due to shortage of working capital and also to increase the capacity by installing the colour separator based on the price receive through it .

Actions should be taken to increase capital allocation for re-cultivation and crop rehabilitation.

The colour separator required to improve the quality of finished tea was purchased in October 2021 and as a result, the quality of finished tea in the estate has increased.

The factory was operated with a capacity of 3,000-3,500 kg of raw tea leaf inputs per day based on the recommendations of the Advisory Committee on Estates and actions have been taken at present to increase the daily consumption of raw tea leaves to 5,000 kg on the recommendation of the Committee.

Further, there are many tea factories in Ratnapura area and due to facing of huge

competition for tea leaves with private sector tea factories and having to purchase raw tea leaves with minimal working capital had also affected to operate the factory at minimum capacity .

Accordingly, it is expected to increase revenue in future and run the factory at optimum capacity. Replanting activities could not be carried out for many years due to lack of capital allocation. Preliminary works have been done to cultivate 5.02 hectares of tea in the year 2022 .

### 3.4 Transactions in Contentious Nature

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) The Staff Provident Fund of the Tea Research Board had been certified by the Labour Commissioner on 30 October 2014 as an approved provident fund with effect from 01 June 1959 under Section 27 (1) of the Employees Provident Fund Act No. 15 of 1958. According to Section 4 (i) of the Management Law Code of this Provident Fund, the Board of Trustees of the Fund should consist of 07 members including the Director of the Tea Research Institute (Chairman of the Board of Trustees), 02 directors and two members of the Fund and two officers who are not members of</p>	<p>The proposal to amend the number of members of the Board of Trustees has been adopted in the Annual General Meeting held on 31.12.2021 to resolve the problematic situation that had arisen in respect of the number of members of the Board of Trustees mentioned in the Tea Research Institute Trust Fund Constitution and the amended constitution has been submitted to the Department of Labour Commissioner for approval by letters dated 23.06.2022 and 25.07.2022. Further inquiries are being made in</p>	<p>Actions should be taken to solve the existing problematic situation promptly.</p>

the Fund nominated by the Sri Lanka Tea Board, in contrary to that, actions had not been taken to include the two members of the Tea Board so far in this Committee indicating that there is no need for two external members due to the reasons such as unnecessary time spent in obtaining loans or cancelling of the membership of a member, misplacement of documents and problems of the organization being transferred to an external party, etc. It was observed that the Board was continuing the activities of the Provident Fund without taking any effective steps to solve this problem.

this regard and arrangements will be made to get the revised report as soon as possible.

- (b) Although the value lost due to the financial fraud of the year 2017 amounting to Rs. 10,276,628 as a result of the internal control weaknesses of the St. Coombs Estate had remained in the debtor balance, it was observed that the failure to recover damages or take disciplinary action to finalize the examinations by the end of the year under review and recover the loss or to take disciplinary actions as a controversial issue .

A two-member committee conducted the preliminary inquiry in respect of the financial irregularity. The report was forwarded to the Tea Research Board meeting and its decisions were to suspend the Estate Superintendent, Chief Clerk and Junior Assistant Clerk and issue charges. Accordingly, Charge Sheets were issued to the three accused and disciplinary investigations have been conducted and disciplinary orders have been issued. Due to the Covid-19 pandemic situation, there was a delay in providing the final inquiry reports of the former Chief Clerk and Junior Assistant Clerk. The Institute has filed a complaint with the

Investigations regarding financial fraud should be concluded without delay and disciplinary actions should be taken and necessary actions should be taken according to the judgments of the cases.

Commercial Crime Investigation Unit of the Criminal Investigation Department regarding the above matter. Further, the facts have been reported by the Criminal Investigation Department under Case No. B/611/2019 of the Nuwara Eliya Magistrate's Court so far. F.R. (104) and F.R. (105) reports have been obtained.

Further, the relevant documents have been forwarded to the Attorney General's Department to take necessary actions to file a civil suit by the Institute against the Junior Assistant Clerk in connection with this financial irregularity.

### 3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Even though there were 36 Senior Managerial Posts within the approved cadre of the Board, 26 posts out of that were in vacant during the year under review. Within those vacancies 04 Divisional Head posts, 13 Chief Research Officer posts and 05 Chief Advisory Officer posts were in vacant to be filled by internal promotions and as a result of non-availability of qualified officers, the vacancies had remained for more than 02 years. Similarly, there were 52 per cent of</p>	<p>The post of Chief Research Officer is an internal promotion and applications were called in August 2022 for qualified officers. The post of Chief Advisory Officer is an internal promotion and there are no internal applicants who have completed the qualifications as per the approved Scheme of Recruitment of Tea Research Institute for those posts.</p>	<p>Actions should be taken to promptly recruit to the essential posts of the approved staff for the vacancies remained.</p>

operational and instructional officer positions and 63 per cent of technical and non-technical management assistant positions in vacant.

- (b) Although there are no posts of Officer- in -Charge (OIC) in the approved staff , 06 officers were appointed on acting basis for the duties of those posts and a sum of Rs.360,000 had been spent during the year under review. The total amount spent since 2010 up to now was Rs.4,073,802 .
- The post of Officer- In - Charge in the approved staff of Sri Lanka Tea Research Institute have not been established and those designations are used to facilitate and maintain formality of services. The duties of Officer- In-Charge are carried out by the officers holding the posts of Chief Research Officer, Instructional Officer and Extension Officer exist in approved staff.
- Arrangements should be made to obtain Treasury approval for grants. The approved number of staff should be revised to suit the needs of the organization.
- The Officers- In- Charge are responsible for the activities of the respective Centre round the clock. Further, responsible for advisory and extension work, research and administrative work, co-ordination activities of income generating projects carried out by the Tea Research Institute, supervision of officers and employees, salary payment of check roll employees and security of the office premises are done by the Officer- In-Charge. The relevant allowance is paid subject to the approval of the Tea Research Board for the duties of the Officers- In- Charge performed in addition to the duties prescribed for their

posts. The Ministry of Plantations has sent a letter to the Department of Public Enterprises to approve the payment of the relevant allowance and further actions will be taken accordingly. Similarly, a post of Officer-In- Charge is expected to be created and included in the approved staff.

- (c) Even though 92 employees who had exceeded 180 days and were hired on a temporary or casual basis as per State Administrative Circular No. 25/2014 dated 12 November, 2014 had been appointed permanently with effect from 24 October 2014, the approval of the Department of Management Services had not been obtained to include the staff of the Board even by the end of the year under review.
- Although the permanent appointments have been made as per Public Administration Circular 25/2014, a letter has been sent to the Ministry of Plantations requesting necessary instructions regarding the further actions to be taken in respect of the employees who have problems regarding its regularity.
- The approval of the Management Services Department should be obtained to include the employees who were appointed in the year 2014.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

Audit Observation -----	Comments of the Management -----	Recommendation -----
There were 101 ongoing research projects as indicated in the Action Plan of the Board during the year under review. Out of the research projects that were commenced from the year 2013 to the year under review, 07 research projects due to the shortage of skilled human resources in the tea sector by the year 2021 and 26 research projects which were spent Rs. 40,498,203 due to various reasons had been postponed or abandoned as per the information submitted to the	Although the Academic Conference on Plantation Crop Research (Plantation Crop Research Symposium) which is launched once every 2 years by the collective of tea, rubber, coconut and sugarcane research institutes is proposed to be conducted in the year 2021 under the initiative of Tea Research Institute, due to the 3 stages of the Covid 19 epidemic which affected all the daily activities and official activities of the world and the Tea Research Institute	Appropriate steps should be taken to utilize allocated funds efficiently and socialize more effective information for all projects including research projects which have been postponed or abandoned.

audit. Likewise, 03 research projects identified to be carried out in 2014 and 2015 were stopped in the halfway without commencing due to lack of financial and labour resources and out of the allocation of for the year under review to conduct publications, exhibitions and symposiums on research amounting to Rs. 2,500,000, a per cent of 89 had not been utilized and symposiums had not been held in the last 02-03 years.

was also lockdown for about a month in the years 2020-2021, conducting and organizing academic conference discussions on plantation crop research was a difficult task.

Nevertheless, it is also planned to convene a meeting of the Chairmen and Directors of the Line Ministry and other Coconut, Rubber and Sugarcane Research Institutes in a coming year. Further, it is also proposed to conduct an international conference on tea with the intervention of Tea Research Institute.