

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tea Research Board for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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:

- 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 the Board 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 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) In terms of paragraph 69 of the Sri Lanka Public Sector Accounting Standard No. 08, provisions should be reviewed at each reporting date, and if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, such provisions should be reversed. However, the provision of Rs. 1,289,006 made for the payment of incentives to the employees of the St. Coombs Estate pertaining to the periods 2014 and 2019 had not been reviewed and adjusted in the accounts even by the end of the year under review. The above balance also included a sum of Rs. 382,335 allocated in 2016 for the payment of incentives to three officers who had left the St. Coombs Estate.	The amount of Rs. 262,336 payable as incentives for the year 2018 represents the amount payable to the individuals who were interdicted in connection with the cash fraud occurred at the tea sales center during 2017/2018, while the remaining Rs. 1,026,670 represents the amount allocated for incentive payments to the estate staff during 2015, 2017, and 2019. At present, the payment of incentives has been suspended.	Financial statements for the ensuing year should be presented in compliance with the Sri Lanka Public Sector Accounting Standards.
(b) According to the transitional provisions of the Public Sector Accounting Standard No. 11, effective from 01 January 2018, when an asset received as a capital grant is recognized as income based on its useful life, the total value of such asset should be credited to the income within a period of three years. However, the sum of Rs. 395,770,540 (Grants & Reserves), which should have been recognized as income of the institution as of 01 January 2021 based	In accordance with the Public Sector Accounting Standard No. 11, capital grants will be recognized as income and accounted for from the year 2025, and the existing balances will be recognized and accounted for as deferred income within the next three years.	Financial statements should be correctly presented in the ensuing year in compliance with the Sri Lanka Public Sector Accounting Standards.

on previously received capital grants, had not been recognized as income by the end of the year under review in accordance with the transitional provisions of the standard.

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| (c) | A total of 10,629 valuable trees such as mahogany, jak, and eucalyptus planted on the lands where the Board is situated and the estates had not been recognized as consumable biological assets and valued and accounted for in accordance with paragraphs 13 and 16 of Sri Lanka Public Sector Accounting Standard 18. | Preliminary activities for the valuation of trees are being carried out in collaboration with the State Timber Corporation, and the valuation will be accounted for in the year 2025 upon completion of the process. | A prompt procedure should be followed to value the relevant assets and include them in the financial statements. |
| (d) | In accordance with paragraph 9 of Sri Lanka Public Sector Accounting Standard 09, materials or supplies held for use in rendering services, distribution, or consumption should be recognized as inventories. However, the stock of 163 types of chemical substances (excluding liquid chemicals) amounting to 1,154 kilograms used for the research and operational activities of the Board in three laboratories had not been recognized as inventories in the statement of financial position, and the total cost had been stated as research expenses in the income statement in the year of purchase. | Expenditure incurred for research and development activities is recognized as an expense in the same year, and stock records have been maintained in the respective laboratories. From the next year onward, the value of stocks available in these laboratories will be calculated and maintained. | Adjustments should be made in accordance with the Sri Lanka Public Sector Accounting Standards and accurate financial statements should be presented accordingly. |
| (e) | Since two vehicles registered under the Sri Lanka Tea Board but not owned by the Tea Research Institute had been revalued at Rs. 250,000 and included in the financial statements of the Board, the value of property, plant, and equipment and the revaluation reserve had been overstated by that amount. | One vehicle was submitted for registration amendment after obtaining the revenue license following repairs, and the motorcycle had been auctioned and sold. | Action should be taken to obtain legal ownership. |
| (f) | According to paragraph 25(c) of Sri Lanka Public Sector Accounting Standard 09, administrative overheads that do not contribute to bringing inventories to their present location and condition should be excluded from the cost of inventories and | From the year 2025 onwards, administrative overhead costs that do not contribute to bringing inventories to their present location will be excluded when calculating | Financial statements for the ensuing year should be presented accordingly by |

	<p>recognized as expenses for the period in which they are incurred. However, contrary to that, a sum of Rs. 12,219,207 that should have been written off as an expense in the income statement had been included in calculating the cost of finished tea inventory at the St. Coombs Estate. Accordingly, the cost of inventory had been overstated by the said amount.</p>	inventory cost.	making adjustments in accordance with Sri Lanka Public Sector Accounting Standards.
(g)	<p>According to paragraph 28 of Sri Lanka Public Sector Accounting Standard 07, when property, plant, and equipment are initially recognized, it should be recognized at their cost and all expenses directly attributable to bringing the asset to its present location and condition should be recognized as a part of the cost incurred. However, contrary to that, expenses amounting to Rs. 9,500,656 including customs duties relating to laboratory research equipment received as a grant to the Plant Breeding Division in 2023 had not been recognized as part of the asset cost. As a result, the value of property, plant, and equipment and depreciation in the financial statements had been understated by Rs. 9,500,656 and Rs. 1,900,131 respectively.</p>	<p>It was stated that Only the expenses borne by the Board had been accounted for during the recording of machinery and equipment, and this accounting error will be rectified from the year 2025 onwards.</p>	- Do -
(h)	<p>Since an expenditure of Rs. 3,624,341 pertaining to the year under review had been accounted for as an expense of the year 2025, the deficit and accrued expenditure of the year under review had been understated by that amount.</p>	<p>This accounting error will be corrected from the year 2025 onwards.</p>	- Do -
(i)	<p>A sum of Rs. 7,285,885 received for the SRL 5050s Supporting Genetic IMP Project had been accounted for under work-in-progress projects, whereas no such ongoing project existed. Further, the amount received from the General Treasury for equipment clearance expenses related to this project had also been so recorded, but it had not been disclosed in the financial statements as grants and receipts.</p>	<p>The work-in-progress project account balance of Rs.7,285,885 will be transferred to the capital reserve account and adjusted as deferred income through the accounts within three years.</p>	<p>Action should be taken to rectify the accounting error when preparing the financial statements for the ensuing year.</p>

1.6 Accounts Receivable and Payable
1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
(a) A balance of Rs. 10,321,858 lost due to financial frauds that occurred in the St. Coombs Estate owned by the Board during the years 2017 and 2018 had been shown as debtors for more than 06 years. The investigations in this regard had not been completed, nor had action been taken to recover the money from the responsible parties.	Charge sheets had been served on three officers of the St. Coombs Estate involved in the incident; they were interdicted, and legal action is being taken while further proceedings are in progress.	Legal action should be expedited, and necessary steps should be taken to recover the losses.
(b) An amount of Rs. 494,194 receivable to the Tea Research Board for the sale of tea to the Small Tea Holdings Development Authority, the Ministry of Plantation Industries, and the Tea Board during the years 2012 and 2013 had been recorded as debtors of the St. Coombs Estate. However, the Board had failed to recover that amount even by the end of the year under review.	Based on the recommendations of the Audit and Management Committee meeting held on 09.05.2025, a committee had been appointed to submit a detailed report on this matter, and instructions had been given to submit the said report by 31.05.2025. After receiving the report, necessary action will be taken accordingly.	Action should be taken against the officers who failed to recover the outstanding balance in due time, and immediate steps should be taken to recover the receivable amount.
(c) During the period from 2005 to 2009, due to the breach of agreements entered into with the Board by four officers who had proceeded abroad on full-pay study leave and failed to return to service, or who left the service before completing the mandatory period after re-joining, the bond value of Rs. 15,054,891 had not been recovered from those officers even by the audited date of 16 May 2025.	Legal action had been initiated regarding all such incidents and that further proceedings are being carried out.	Action should be taken against the officers who failed to take timely steps to recover the relevant amounts, and immediate action should be taken to recover the dues.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
(a) The Board had not taken steps to settle the total creditor balance of Rs. 1,931,878 due to various stocks suppliers of St. Coombs Estate from years 02 to 11, or to make the necessary adjustments for creditors who were confirmed to be unclaimed, even at the end of the year under review.	Based on the recommendation made at the Audit and Management Committee meeting held on 09.05.2025, a committee has been appointed to submit a detailed report. Instructions have been given to submit that report by 31.05.2025, and necessary action will be taken upon receipt of the report.	A formal investigation should be carried out to determine the balances that remain payable, and steps should be taken to settle those balances and to credit the other balances to the income.
(b) The balances of Rs. 480,000 and Rs. 699,717 payable respectively to the Small Tea Plantation Development Authority and the General Treasury had remained unsettled for more than 04 years even by the end of the year under review.	Action has been taken to settle the amount of Rs. 699,717 payable to the General Treasury. Steps will be taken to recover Rs. 431,728 due from the Small Tea Holdings Development Authority and settle the remaining Rs. 480,000.	- Do -

1.7 Non-compliance with laws, rules and regulations

Reference to laws, rules / Details regulations	Comment of the Management	Recommendation
(a) F.R.756.6 as amended by Paragraph 11.1 of the Public Enterprises Circular No. 1/2020 dated 28 August 2020	Although the Board should submit the annual board of survey report to the Auditor General before 15 June of the following financial year after completing the annual stock verification within the specified	The board of survey activities for the year 2023 have been completed, and as there were no sufficient items for disposal, arrangements have been made to retain them until the disposal auction is held in the ensuing year.
		Steps should be taken to conduct board of surveys and submit reports in a timely manner.

time frame, the board of survey reports for the year 2023 had not been submitted even by 26 May 2025.

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| (b) | Paragraph 6.6 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021. | The annual reports of the Board for the years 2022 and 2023 had not been tabled in Parliament even by 26 May 2025. | Action is being taken to submit them to Parliament as soon as possible. | Action should be taken to table annual reports promptly in parliament and to take action against the officers who failed to act in accordance with the regulations. |
| (c) | Rule No. 100 of the Rules published by the Secretary to the Public Service Commission in the Extraordinary Gazette No. 2310/29 dated 14 December 2022 of the Democratic Socialist Republic of Sri Lanka | The Head of the relevant Division or Branch should promptly hand over a written duty list to every officer who receives a formal appointment. However, duty lists had not been provided in writing to the officers of the Tea Research Institute. | Duty lists have been provided to most officers of the Tea Research Institute, and arrangements are being made to issue the duty lists already prepared to the remaining officers in due course. | Action should be taken to provide duty lists to all officers and to take steps against the responsible officers who failed to perform administrative duties in a proper manner. |

2. Financial Review

Financial Results

The operational result for the year under review was a deficit of Rs. 56,123,000, whereas the surplus of the preceding year was Rs. 12,740,000. Accordingly, a deterioration of Rs. 68,224,000 in the financial result was observed. The main reason for this deterioration was the increase in allocations for gratuity due to the salary conversion.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although equipment worth Rs. 12,554,583 had been purchased from India on 24 November 2017 under the special projects of the Board for studying the adaptive response	Legal action has been taken in this regard, and the court has informed to notify the concerned defendant party	A formal investigation should be carried out regarding the purchase of equipment that did

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| <p>of tea plants to climatic changes, it had remained idle for 06 years without being used for research purposes, as the equipment did not meet the required specifications and its operational performance was not at the expected level.</p> | <p>through the intervention of the three arbitrators appointed by the institution. A period has been granted for that purpose, and the next hearing has been scheduled for 19 June 2025.</p> | <p>not meet the required specifications and the failure to achieve the intended purpose, and further action should be taken accordingly.</p> |
| <p>(b) A contract worth Rs. 4,228,700 had been awarded to a state-owned company on 22 April 2020 for the design, implementation, and maintenance of a Management Information System for the Sri Lanka Tea Research Board, and an advance payment of Rs. 1,141,749 had been made to that institution on 20 August 2020. Although the work was to be completed within 120 days from the date of award of the contract as per the bid documents submitted by the service provider, the work had not been completed even though 5 years had passed by the audited date of 26 May 2025.</p> | <p>The 08 modules that were to be completed, all have now been developed. Although the data entry related to the finance and accounting module and the payroll module should be done by the respective divisions, there has been a delay; however, data entry has now commenced.</p> | <p>Formal Action should be taken against the officers responsible for not completing the work within the stipulated period, and steps should be taken to complete the task expeditiously</p> |
| <p>(c) A sum of Rs. 242.42 million had been spent for the implementation of the Strategic Plan for the Research Projects for the period 2019–2023. Accordingly, 172 programs and projects had been planned under Objective 01 of the Strategic Plan during the project period. According to the progress report of the Strategic Plan submitted for audit after the completion of the project in 2024, it had been targeted to achieve 100 percent progress in 143 programs and projects under Objective 01 by the year 2023. However, due to various reasons such as failure to complete as planned, non-implementation, and postponement in 47 programs and projects implemented within the planned period at a cost of Rs. 30.12 million, the intended objectives of the Strategic Plan had not been achieved. Further, since the progress report submitted for audit did not include information relating to the progress of another 44 programs and projects included in the Strategic Plan, it could not be confirmed whether those programs had been</p> | <p>Most of these projects have achieved their intended objectives within the relevant period (2019–2023); however, as the continuous analysis of newly introduced varieties as well as improved pest and weed control agents is required, they have been shown as ongoing projects. Moreover, due to the lack of officers with the necessary expertise, certain projects could not be implemented.</p> | <p>A formal investigation should be conducted in this regard, and necessary action should be taken against the responsible parties for the failure to obtain the expected benefits from the funds spent.</p> |

implemented or whether the expected objectives of the projects had been achieved.

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| (d) | <p>With regard to the project titled Investigation on Adaptive Responses of Tea Plant to Climate Change, equipment valued at Rs. 1,903,091 had been purchased for temperature control purposes; however, due to non-compliance with the required technical specifications, legal action had been instituted against the relevant supplier. The project had been suspended for more than 05 years due to the absence of the relevant equipment.</p> | <p>It was observed that the required environmental conditions for the growth chamber, which is the main and basic equipment required for the research activities related to the aforementioned project, could not be maintained properly. Although this had been informed to the supplier company, the equipment could not be operated properly. Subsequently, after reviewing the matter, steps have been taken to initiate legal action.</p> | <p>Proposed legal action should be expedited, and alternative measures should be taken to implement this project promptly in a formal manner.</p> |
| (e) | <p>The construction of a container show room prepared for the tea sales outlet at St. Coombs Estate, which commenced in 2018, had not been completed up to now, and the sum of Rs. 760,604 spent thereon had been accounted for as work-in-progress.</p> | <p>Activities of the tea sales outlet have currently been suspended, and legal action has been initiated to recover the amount spent for this purpose.</p> | <p>Legal proceedings should be expedited, and formal disciplinary action should be taken against the officers concerned for implementing such projects without a proper feasibility study.</p> |

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Fourteen projects totalled Rs. 18,345,666, shown under work-in-progress in the statement of financial position for the year under review, had remained inactive for periods ranging between 2 and 5 years.	The projects pointed out as inactive were those implemented under external funding sources. Except for one project, all other research projects have been completed, and the final reports have been submitted.	A formal investigation should be conducted to identify the reasons for the inactivity of these projects and appropriate actions should be taken accordingly.

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| (b) | <p>A continuous decline in the quantity of finished tea production at the St. Coombs Estate was reported during the period from 2017 to 2024. Accordingly, the annual production, which was 374,893 kilograms in 2017, had decreased to 254,050 kilograms by 2024, indicating a 32 percent decrease compared to 2017. Furthermore, it was also observed that the finished tea production for the year under review had decreased by 76 percent, or 76,113 kilograms, compared to the year 2023.</p> | <p>There has been no significant variation in tea production at the estate. The quantity of tea purchased in 2024 has declined compared to 2017 due to market competition.</p> | <p>A formal inquiry should be conducted to identify the reasons for the decline in production and take appropriate measures to address them, while implementing a program to enhance production.</p> |
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3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Management	Recommendation
(a) A land extent of 1.367 hectares, including the factory and all buildings belonging to the Talawakelle Lamilier Estate of the Tea Research Board, had been leased to a private company for a period of 50 years in 2003. However, as the lease rentals were not paid as per the agreement, the said property had been repossessed in 2016. Nevertheless, although a period of nine years had elapsed since repossession up to May 2025, these assets had remained idle without being put to productive use.	The approval of the Tea Research Board has been obtained to appoint a committee to look into the use and maintenance of the buildings, and actions are being taken accordingly based on the committee's observations.	A formal investigation should be carried out, and if any lease rentals are in arrears, steps should be taken to recover them. Disciplinary action should also be taken against the officers responsible for failing to recover such dues and for keeping the buildings underutilized for 9 years.

4. Human Resource Management

Audit Observation	Comment of the Management	Recommendation
(a) Despite having 36 senior management positions included in the approved cadre of the Board, 26 positions had remained vacant during the year under review. Among these vacant positions, 23 positions, including 8 Heads of Divisions, 11 Principal Research Officers, and 4 Chief Advisory Officers should have been filled through internal promotions. However, these positions had remained vacant for more than five years. Furthermore, there were 47 vacancies in junior management and operational officer positions at the tertiary level, 83 vacancies in	At present, in accordance with the approved scheme of recruitment of the Tea Research Institute, a request has been submitted to the Committee on Recruitment in the Public Service through the letter dated 30 April 2025 to fill the positions of Heads of Divisions.	A staff review should be carried out based on the existing workload, and necessary vacancies should be duly filled.

management assistant positions at the secondary level, and 88 vacancies in primary-level positions, totaling 218 vacancies, representing 61 percent of the approved cadre. These vacancies continued to exist even at the end of the year under review. In addition, the preparation of the procedural manual for human resource management and obtaining the approval of the Secretary to the Treasury had not been completed during the year under review.