

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Kalubowitiyana Tea Factory Limited (“Company”) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 and the statement of profit and loss, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, 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 Companies Act No. 07 of 2007. My comments and observations which I consider should be reported to parliament appear in this report

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope (Auditor's responsibility regarding the audit of 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) The trade receivable balance of Rs. 1,361,850 from the sale of tea packets made by the tea shop, which was included in the company's miscellaneous receivables balance for more than 90 days, had not been recovered even by the end of the year under review.	A letter has been sent to the Legal Officer of the Ministry on 01.08.2025 seeking legal advice to recover the amount of Rs.396,210 due from Sathosa and the amount of Rs.654,375 due from the Spice Related Products Institute. A full report will be submitted regarding the possibility of recovering the remaining balances.	Necessary steps should be taken to recover the outstanding balance.
(b) Outstanding receivable balances of Rs.424,495 for more than 05 years at the Hiniduma Hills Factory, relating to advances given to raw leaf suppliers, had not been settled by the end of the year under review.	The receivable balance amounted to Rs.342,917 as at 31 July 2025 and there were only two balances amounting to Rs.197,914 and Rs.50,000 have been identified as unrecoverable. The progress of recovering the remaining balances is being reviewed monthly through recovery committee meetings and factory officials have been instructed to recover those amounts within three months.	Appropriate formal measures should be taken either to recover the relevant advance payments early or to obtain tea leaves from the respective suppliers in settlement.

(c) Action had not been taken to recover a distress loan balance of Rs. 836,574 due from officers who had left the service by the end of the year under review.	This balance represents a total of five employees. Of these, sums of Rs.323,063 and Rs.259,967 have been recovered from their gratuity payments. The remaining balance of Rs.95,585 is being recovered in installments from the guarantor. Letters have been sent to the individuals owing the remaining balances of Rs.67,987 and Rs.89,972, informing them to make the necessary payments, and recovery actions are currently in progress.	Steps should be taken to recover outstanding distress loan balances early.
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1.6 Non-compliance with laws, rules, regulations and management decisions, etc.

Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the Management	Recommendation
Paragraph 3 of Public Enterprise Circular No. 01/2021 dated 16 November 2021	Although an operations manual should have been prepared regarding the operational processes and controls of the Company including human resource management, action had not been taken by the Company accordingly.	The company's drafted administrative manual has been submitted to the Department of Public Enterprises for necessary action.	Actions should be taken to obtain the approval for the operational manual early and expedite the implementation of administrative activities accordingly.

2. Financial Review

2.1 Financial Results

The net loss after tax for the year under review was Rs. 8,307,320, while the net profit after tax for the previous year was Rs.55,574,507. Accordingly, a decline of Rs.63,881,827 was observed in the financial result. This decrease was mainly due to a decrease in the income from the sale of finished tea by Rs.123,963,159, a decrease in the profit from the welfare sales outlet by Rs.21,398,887 and an increase in the cost of purchasing raw leaves by Rs.22,874,809, compared to the previous year.

2.2 Trend analysis of major income and expenditure items

The company's sales revenue has decreased by 7 percent compared to the previous year and this decrease is observed to be due to a 15 percent decrease in sales revenue at the Derangala factory , a 19 percent decrease in sales revenue at the Hiniduma Hills factory and a 29 percent decrease in sales revenue at the Menikdiwela factory. Also, due to a 78 percent decrease in profit from the welfare sales outlet compared to the previous year, other operating income has decreased by 34 percent in the year under review. It is observed that selling and distribution expenses have decreased by 80 percent in the analysis of cost components.

2.3 Ratio Analysis

The current and quick asset ratios in the year under review stood at 4:1 and 2.6:1 respectively, while such ratios in the preceding year stood at 5:1 and 3:1 respectively. In the years 2024/2025, the total of inventories, short-term investments, and cash and cash equivalents amounted to Rs. 623,836,849. Due to this highly liquid financial position, these ratios recorded values higher than the standard or desirable level.

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Kalubowitiyana Tea Factory, which is located on a 4.075 hectare land valued at Rs. 23,000,000, has been occupied by 15 unauthorized occupants since 1989 and 1996 on 0.802 hectares, and the company had failed to resolve this issue by the end of the year under review.	At the audit and management committee meeting held at the Ministry on 17 July 2025, this matter was further discussed, and a letter was sent to the Legal Officer of the Ministry on 28 July 2025, requesting necessary instructions for further action.	Necessary legal steps should be taken to resolve the ownership of the land through legal action.
(b) The Hiniduma Hills and Menikdiwela Tea Factories, which were started under the Tea Shakthi Fund, were handed over to Kalubowitiyana Tea Factory Limited for operational activities in 2012 and 2015 respectively, and the company had also provided a loan of Rs.50 million to the Tea Shakthi Fund on 09 April 2015. In accordance with the Cabinet Decision No. CP/19/0743/117/024 dated 19 March 2019, approval had been received to take over the ownership of the Hiniduma and Menikdiwela Tea Factories to the Company legally in return for this amount and the relevant interest, but the legal	A reminder letter has been sent to the Department of the Commissioner General of Lands on 12.06.2025 requesting the transfer of the deed of the Menikdiwela Tea Factory to us. The outstanding rent amount for the Hiniduma Hills Tea Factory from 19.03.2019 to 18.03.2025 has been paid and during the discussion held on 31.07.2025 between the Assistant Manager of the Company and the Chairman of the	As per the Cabinet decision, immediate action should be taken to transfer ownership of the tea factories to the Company.

ownership of those factories had not been taken over until the end of the year under review.

Administrative and Land Reforms Commission, it was not possible to reach an agreement regarding the usage fees sent on 18.07.2025 and advice has been sought from the Legal Officers of the Ministry in this regard by letter dated 31.07.2025.

- (c) The Managing Director, Manager (Finance and Marketing) and Internal Auditor of the Company were temporarily suspended on 27 March 2025 following a preliminary investigation regarding misconduct in the finished tea stock related to the Derangala Tea Factory. However, formal disciplinary investigations had not been conducted and reports had not been issued as at the date of the audit report.

In accordance with Public Administration Circular 03/2019, an Investigation Officer has been appointed as per the Disciplinary Investigation Officer Name List under Sub-section 19:3 of Chapter 2, Volume 2, XLV - II of the Establishments Code and a formal disciplinary investigation is currently being conducted by him.

A formal disciplinary investigation should be conducted against the officers accused of the matter in question and necessary steps should be taken early.

3.2 Operational inefficiencies

Audit Observation

The Derangala Tea Factory reported a loss of Rs.84,852,226 during the year under review, which was an increase of about 251 percent compared to the loss of Rs.24,157,686 reported in the preceding year. It was observed that Hiniduma Hills and Menikdiwela Tea Factories also reported losses of Rs.27,559,672 and Rs.34,601,663 respectively .

Comments of the Management

Although labour costs, fuel costs, electricity costs, leaf transportation costs, finished tea transportation costs, machinery repair and maintenance costs, etc. have continued to increase, the selling price of finished tea has not been increased comparatively. Thereon, the profits at the Kalubowitiyana Tea Factory has declined and the losses reported at the Derangala, Hiniduma and Menikdiwela Tea Factories.

Recommendation

The company should properly study the current internal and external environmental factors related to the tea industry and take all necessary steps to operate the tea factories profitably.

3.3 Underutilization of funds

Audit Observation	Comments of the Management	Recommendation
The Company was given a sum of Rs.18,204,900 as government grants to adapt factories to new technology on 15 September 2021. Out of the procurement activities approved under this, the introduction of computerized technology for sharpening CTC cutters and the purchase and installation of 02 CTC tea grading machines had not been initiated by 31 March 2025 and it was observed that grants of Rs.7,620,900 had remained.	The remaining amount of Rs.7,856,900 is to be used to purchase a CTC cutter sharpening machine and 02 tea grading machines, and currently the cost of those machines is about Rs.23.2 million. For the purchase of those machines, bids have been invited again as per the recommendations of the Technical Evaluation Committee and arrangements are being made to open the bids on 08.08.2025.	The project to adapt tea factories to new technology should be completed early.

3.4 Idle or Underutilized Property , Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) Although the annual finished tea production capacities of the Kalubovitiyana, Deranagala, Hiniduma Hills, and Manikdiwela tea factories are 1,440,000 kg, 576,000 kg, 516,000 kg, and 300,000 kg respectively, during the year under review their actual finished tea production amounted to 911,204 kg, 158,926 kg, 129,130 kg, and 94,755 kg respectively. Accordingly, it was observed that the Kalubovitiyana Tea Factory had an underutilization rate of 37 percent, while the Deranagala, Hiniduma, and Manikdiwela factories recorded comparatively higher underutilization rates of 73 percent, 75 percent, and 68 percent respectively.	Since all the factories in the area are operating at undercapacity, private tea factory owners are spending a large amount of money as Enhance Rate to obtain the required quantity of raw leaves. It is always an amount added to the amount received through the market auction, and since this company is a government-owned business entity, it is not possible to do so, and this has also led to a decrease in the amount of leaves received by the factory.	The company should take action to enhance the finished tea production capacity through the identification and implementation of new management strategies.
(b) Although the Deranagala Tea Factory premises included a nursery area capable of maintaining approximately 100,000 tea plants, no tea plant production had taken place there after July 2023. It was further observed at the physical inspection that the	It is expected to renovate this nursery and recommence tea plant propagation under the guidance of the Tea Board and the supervision of the Tea Research Institute. However, due to the inability to recruit a new	Necessary steps should be taken to maximize the production capacity of the nursery and

factory management had not paid adequate attention to the maintenance of the nursery, resulting in the underutilization of available resources.	manager for the Deranagala Factory, it has not been possible to bear such a large expenditure for nursery rehabilitation and to obtain the expected benefits.	management should focus on continuous maintenance of the nursery.
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| (c) Although two batch weighing machines costing Rs.4,031,000 were purchased and installed in 2023 for the Deranagala and Hiniduma factories, it was observed at the physical inspection carried out by the audit that these machines were underutilized, as they were not in use and lacked the capability to generate the expected reports. | An estimate of Rs. 450,359 has been submitted by the supplier for repairing the batch weighing machine installed at the Daranagala Tea Factory, and steps are currently being taken to repair it promptly and reintegrate it into the production process. Similarly, an estimate of Rs. 347,898 has been submitted by the supplier for repairing the batch weighing machine installed at the Hiniduma Hills Tea Factory, and actions are also being taken to repair it quickly and include it in the production process. | Necessary measures should be taken to utilize the underutilized machinery in production activities and thereby enhance the efficiency and performance of the production process. |
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3.5 Human Resource Management

Audit Observation

Although the approved cadre of the head office under the Department of Management Services consisted of 40 positions, 19 of those positions remained vacant. Similarly, out of the 82 positions approved by the Board of Directors for the tea factories, 36 positions were vacant. However, necessary recruitment or revisions to the approved cadre had not been carried out.

Comments of the Management

Due to issues related to the qualifications specified in the Scheme of Recruitment (SOR) and the lengthy time taken to resolve them, it has not been possible to recruit managers and other officers for the relevant positions. Recruitment to the head office was also delayed owing to the late receipt of necessary approvals; however, since those approvals have now been obtained, action is being taken to proceed with recruitment promptly. In addition, the recruitment of general workers for the factories has been carried out as required.

Recommendation

Steps should be taken to recruit officers for essential positions to achieve the objectives and enhance performance of the Company.