

## **Tea Shakthi Fund - 2018**

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The audit of the operational activities of the Tea Shakthi Fund for the year ended 31 December 2018 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 .

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

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Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the Financial Statements which should be submitted to the Auditor General within 60 days after the closure of the accounting year, the financial statements which should be presented for the Auditor General for the years 2016, 2017 and 2018 had not been presented for audit even by the date of this report in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/2004 of 24 February 2004 .

## **2. Audit Observation**

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### **(a) Maintenance of Accounting Books and Registers**

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Although the activities of the Fund had been carried out continuously, the ledger accounts, books and documents for the year under review had not been completed.

### **(b) The Existence of Assets and Liabilities**

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Details of Assets, Liabilities, Income and Expenditure of the Fund as at 31 December 2015 submitted to audit at last are shown below.

<b>Description</b> -----	<b>Value</b> ----- <b>Rs.</b>
<b>Assets</b> -----	
Non- current Assets	350,332,493
Current Assets	346,460,128
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Total Assets	696,792,621
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<b>Liabilities</b> -----	
Equity	(111,648,540)
Non- current Liabilities	481,088,651
Current Liabilities	327,352,510
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Total liabilities	696,792,621
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**Rs.**

Sales	573,519,262
Cost of Sales	(552,517,570)
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Gross Profit	21,001,692
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**(c) Going Concern of the Organization**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
The Tea Shakthi Fund continued to occur losses and the equity capital of the Fund was gradually declining. Accordingly, the equity capital amounted to Rs. 533.04 million in the year 2011 had shown a minus equity capital atmosphere. On these conditions, the approval was given to restructure the Fund vesting the activities of the Tea Shakthi Fund	Out of the leasing of the factories and the income from the management under the restructuring, approximately a sum of Rs. 51 million has been invested in fixed deposits by now and the funds are gradually being built up to establish the Welfare Insurance Fund and paying Dividends to Shareholders .	Actions should be taken to provide benefits to shareholders as per the Decision of the Cabinet of Ministers and to rebuild the Welfare Insurance Fund.

to the Secretary of the Ministry of Plantation Industries by the Decision of Cabinet of Ministers No. 16/1427/ 726/015-I dated 13 July 2016 .

By restructuring that, it was anticipated to provide benefits to the shareholders from the income of the leasing of the factory and to settle a sum of Rs. 135 million provided to the Factory Division from the Insurance Fund that was set up to pay insurance benefits and to transfer the rest of lease income to the Ministry of Finance thereafter. However, even though a sum of Rs. 40 million had been invested in fixed deposits as at 31 December 2018 , actions had not been taken to achieve the above objectives.

**(d) Advances**

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**Audit Observation**

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Even though the construction of the Bulathkohupitiya and Pothupitiya Tea Factories had been stopped in the year 2003 , actions had not been taken to settle the advances provided to the contractors in the year 2001 for the construction of these factories totalled to Rs. 18,042,351 by the end of the year under review.

**Comments of the Management**

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Advances has been paid to the relevant contractors for the construction of 02 new tea factories . The Construction has been halted due to lack of funds from the Treasury to complete these factories and only a part of the work has been done by the respective contractors. This is reflected in the fact that those constructions were not assessed and included in the books. Necessary steps are being taken to rectify this situation.

**Recommendation**

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Arrangements should be made to assess the construction cost and to settle the advances.

**(e) Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) Section 3.1.6 of Public Finance Circular No. 05/2016 of 31 March 2016	Although the actions should be taken to submit the Board of Survey Reports of the last year to the Auditor General before 17 March of each financial year, the Board of Survey Reports of the year 2018 had not been submitted.	Fixed assets have been surveyed annually and those reports have been submitted to the audit.	The fixed assets of the factories belonging to the Fund should be surveyed annually and the reports should be submitted to the audit.
(ii) Treasury Circular No. IAI/2002/ 02 of 28 December 2002	A Register of Fixed Assets had not been maintained for the computers and software totalled to Rs. 4,565,247 .	Officers were advised to maintain a Register of Fixed Assets for computers and software as per the Circular.	Registers should be maintained as prescribed in the Circular.

**3. Operating Review**

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**(a) Management Inefficiencies**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) The Management of the Mahaweli Tea Factory which belonging to the Fund had been vested to Raigam Plantations (Pvt.) Company on 28 April 2017 and the Fund was able to recover only one monthly installment. Due to the difficulty of obtaining green leaves to the Mahaweli Tea Factory and the inability to meet expenses from	The Raigam Plantations (Pvt.) Company, which acquired the Management of the Factory had not produced tea in the Factory until it was returned to the Tea Shakthi Fund from the date on which Management took over the Factory. Actions are being taken to assess the costs incurred for the	Actions should be taken to recover the arrears of leases as per lease agreements promptly.

the income, the factory had been acquired back to the Tea Shakti Fund on 12 June 2018 . The arrears of installments and late fees to be received to the Fund from the Mahaweli Factory by that time was Rs. 13,691,243 and actions had not been taken to recover that money.

refurbishment activities of the Factory out of the security deposits of the Company and to settle the relevant cost and thereafter, if there is another outstanding balance, the legal ability to recover the amount is being examined.

- (ii) The Walahanduwa Factory which was leased out to Melman Lanka (Pvt) Company had been returned to the Fund on 01 June 2018 . A total of Rs. 13,987,200 was in receivable from the lessee as lease receivable from this Institution amounted to Rs. 6,345,000 and the late charges on it amounted to Rs. 7,642,200 . Although its security deposit was set off for that, the Mangement had not taken actions to recover the arrears balance remained furthermore amounted to Rs. 9,757,200 .

The Melman Lanka (Pvt.) Company, which acquired the Management of the Factory had not produced tea in the Factory until it was returned to the Tea Shakthi Fund from the date on which Management took over the Factory . Actions are being taken to assess the costs incurred for the refurbishment activities of the Factory out of the security deposits of the Company and to settle the relevant cost and thereafter, if there is another outstanding balance, the legal ability to recover the amount is being examined.

Actions should be taken immediately to recover the arrears of leases as per the lease agreements.

- (iii) Actions had not been taken to recover a sum of Rs. 21,759,975 receivable as at 31 December from the fertilizer store and 7 factories which had unpaid leases in terms of the agreements entered into with the handing over of factories on lease basis in the years 2017 and 2018 . Further, actions had not been taken as per the agreements in respect of lease properties which had not paid arrears up to 13 months.

Walahanduwa and Mahaweli Factories have been taken over back and the Management has retained the buyer's deposit due to non-payment of management installments properly.

The preliminary arrangements required to take legal actions against the buyers have been made due to not paying lease and management fees in the Gileemale and Kothmale Tea Factories.

Consent of some buyers

Legal actions should be taken expeditiously in terms of lease agreements and recovery of arrears.

have been obtained to pay their lease installments through their tea broker agencies by making aware of Lessees and the Lessees in the Management at Elpitiya, Deraniyagala, Deniyaya, Mawarala Estate and Mawarala Tea Factories.

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| <p>(iv) In case of leasing of the factory, since non- payment of the monthly lease payable on or before the first day of the next month as per the agreement entered in to , actions should be taken to impose a penalty of 1 per cent of lease amount on every single day . However, it was observed that a sum of Rs. 59,771,330 had to be recovered as late charges on non-payment of leases as at 31 December 2018 .</p> | <p>As proposals have been made regarding the change of conditions, it was planned to obtain the approval of the Cabinet of Ministers and to act accordingly.</p> | <p>Actions should be taken to recover the late charges as per the lease agreements.</p> |
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**(b) Idle or Underutilized Property, Plant and Equipment**

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Audit Observation	Comments of the Management	Recommendation
<p>A computer software system had been purchased to set up accounts jointly with the Head Office of the Fund and all the factories. However, it had not used for the purpose of setting up the intended accounts until 31 December 2018, from the date the software was purchased.</p>	<p>This software system was not used due to the fact that it could not be networked as per the factory location and since the factories have been vested under lease and management to external parties subjected to restructuring of the Institution by now, there is no possibility of using such software.</p>	<p>Institutional needs should be identified before ordering goods and services and check whether the payment is at the intended level before making the payment.</p>

**(c) Resources Released to Other Organizations**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Three Management Assistants to the Department of Rubber Development and a Driver to the Tea Small Tea Holdings Development Authority had been released and even though a sum of Rs. 1,459,614 had been paid out from the Fund for those officers during the year under review, actions had not been taken to collect money from those institutions.	----- Employees have been assigned to institutions as per the Decision given by the Cabinet of Ministers dated 13/06/2017 for the Cabinet Memorandum submitted by the Hon. Minister of Plantation Industries on 18/04/2017 regarding the assignment of attaching for the vacancies remained in the institutions under the Ministry under the restructuring of the Tea Shakthi Fund and the relevant officers have been attached to the Department of Rubber Development and the Tea Small Holdings Development Authority considering the service requirements. The officers had not been assigned on the basis of salaries reimbursement.	----- Actions should be taken to reimburse the money paid for labour released to an external institution.

**(d) Human Resources Management**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- The Fund has filed 62 cases in courts against employees in the factories maintained by the Management and the external parties and a case in the Supreme Court and 77 cases in labour tribunals by employees against the Fund and hearing is scheduled by 31 December 2018 . Further, The amount of compensation that the employees had to pay	----- The approval of the Cabinet of Ministers අමුණ /16P224/ 726 / 015-1 dated 05.07.2016 had been given to keep the workers in the factories of the Tea Shakthi Fund under new lease / lessees of the Management to keep them in service furthermore. Their services were confirmed by the inclusion of a condition for the continuation of service of those workers in the Lease/Management	----- Actions should be taken in accordance with the Circulars and the Decisions of Cabinet of Ministers on the termination of the service of the staff.

was Rs. 27,622,671 as at 31 December 2018 as per the cases filed in labour tribunals against the Fund by the employees of the Fund,

Memorandum of Understandings. Even though Labour Tribunals were informed about that, decisions were given to pay compensation in hearing the cases before Labour Tribunals. Further it has also been decided in the relevant cases that the casual employees of the factories have been terminated improperly. Accordingly, a sum of Rs. 27,622,671.25 had been paid by 31 December 2018 as Rs. 24,602,381.25 for 60 persons for court orders and a sum of Rs. 3,020,290 for 24 persons for settlement cases.

#### 4. Accountability and Good Governance

##### Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Although an Action Plan should be prepared with a long-term vision, including activities to meet the objectives set out in the Act in terms of Paragraph 4 of the Public Finance Circular No. 01/2014 dated 17 February 2014, actions had not been so taken.</p>	<p>Necessary instructions have been given to prepare the Action Plan for the next year.</p>	<p>The preparation of the Action Plan according to the circular provisions should be expedited.</p>