

Transactions of the Tea Shakthi Fund - 2019

The audit of the operations of the Tea Shakthi Fund for the year ended 31 December 2019, 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 Finance Act, No. 38 of 1971.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund.

According to Sub-section 16(2) of the said Act, the annual financial statements in respect of every auditee entity, should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such periods as may be provided by rules.

In terms of Sub-section 38(1)(d) of the Act, the Chief Accounting Officer should ensure the timely preparation and submission of annual and other financial statements and in addition he is required to submit annual reports to Parliament pertaining to the auditee entity. Nevertheless, the financial statements for the years 2016, 2017, 2018, and 2019 that should have been presented to the Auditor General within a period of 60 days after the end of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, and the Treasury Circular, No. 01/2004 dated 24 February 2004, had not been presented to the Audit even by the date of this report.

2. Audit Observations

2.1 Maintaining the Accounts, Books and Registers

Although the affairs of the Fund had been maintained continuously, the ledger accounts, books and registers relating to the year under review had not been duly completed.

2.2 Existence of Assets and Liabilities

Following are the particulars on the assets and liabilities shown in the financial statements as at 31 December 2015 last presented to the Audit by the Fund.

Item	Value
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	Rs.
Assets	

Non-current Assets	350,332,493
Current Assets	346,460,128
Total Assets	<u>696,792,621</u>

Liabilities

Equity Capital	(111,648,540)
Non-current Liabilities	481,088,651
Current Liabilities	327,352,510

Total Liabilities **696,792,621**

2.3 Going Concern of the Fund

Audit Observation

The Tea Shakthi Fund had continuously sustained losses whilst the equity capital of the Fund declined gradually. As such, the equity capital of the year 2011 amounting to Rs. 553.04 million had reached a negative value of Rs. 111.65 million by the year 2015. In that backdrop, the operations of the Board of Directors of the Tea Shakthi Fund had been suspended following the Cabinet Decision, No. 403/16/1224/726/015-I dated 13 July 2016 and the responsibilities thereof had been vested in the Secretary to the Ministry of Plantation Industries thereby granting approval to restructure the Fund by implementing a methodology comprising 09 proposals.

To provide the shareholders with benefits utilizing the income earned through factories being given on lease; taking action for the recovery of the sum of Rs. 135 million utilized on the factories from the Welfare Insurance Fund; and the tax revenue remaining thereafter be credited to the Ministry of Finance, had been the objectives of restructuring the Tea Shakthi Fund. However, due to failure in obtaining lease rent from the factories as

Comment of the Management

The objectives of restructuring the Fund could not be achieved during the expected periods as the tax and management income had not been received as expected. However, in order to establish the Welfare Insurance Fund worth Rs. 135 million, a sum of about Rs. 95 million from the tax and management income has already been invested in fixed deposits. It is expected to reach the objectives in due course.

Recommendation

Action should be taken in accordance with the Cabinet Decision to provide the shareholders with benefits and reestablish the Welfare Insurance Fund.

expected, the Fund could not achieve the said objectives even after 4 years since the Fund had been restructured.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
Financial Regulation 507 (2) of the Democratic Socialist Republic of Sri Lanka.	Action should be taken to furnish the reports of the Board of Survey for the preceding year to the Auditor General prior to 17 March of every financial year. However, the reports of the Board of Survey for the year 2019 had not been made available.	<p>Agreed.</p> <p>Some of the assets of the Head Office of the Tea Shakthi Fund, had been vested in the Tea Small Holdings Development Authority, whilst the rest had been vested in the Ministry of Plantation Industries. Having conducted an annual verification on those assets, statements of assets had been furnished to the Auditor General by the relevant institution.</p> <p>The other tea factories, fertilizer stores, and the Mawarala Estate owned by the Tea Shakthi Fund, had been handed over to external parties through lease and management agreements along with the lists of goods. Those assets are verified by the junior assistant factory officer of the Fund, and action will be taken to provide you with the copies thereof in due course.</p>	Fixed assets of the factories owned by the Fund should be surveyed annually, and the reports should be furnished to the Audit.

2.5 Management of Funds

Audit Observation	Comment of the Management	Recommendation
A balance of Rs. 13 million existed in the Current Account, No. 2937124 maintained at the Bank of Ceylon during January- October of the year under review. Due to failure in investing in short term deposits during that period, it is observed that the Fund had been deprived of an opportunity to earn an interest income.	Agreed. A group insurance policy is obtained annually from an insurance company selected through tender procedure, for the members contributing to the welfare insurance. It is scheduled to be done at the end of March in every year. As a sum of Rs. 13 million is required in this connection, the said amount had been retained in that account. This situation arose due to the delay in paying the sum as the tender procedure had delayed in that year.	Investments should be made in short term deposits under consent of the relevant Minister and the Minister of Finance.

3. Operating Review

The following observations are made.

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) The tea factory in Deniyaya, and the Mawarala Estate & tea factory had been given on lease to Greenline First Private Limited in the years 2016 and 2017 respectively. The penalties for delay on the lease rent of those properties totalling Rs. 100,888,720 that had remained recoverable from the year 2017, and the lease rent for the year under review amounting to Rs. 21,469,837, had not been recovered even up to the end of the year under review.	Agreed. At the time of giving on lease, the Mawarala factory had remained without being used for manufacturing tea over a prolonged period. As such, a considerable amount had to be spent for restoring the factory. Although the factory has been restored, the lessee has not commenced the manufacturing process. Discussions are constantly being held with the lessee in regard of the lease rent in arrears. As fresh tea leaves sufficient for operating the factory in	The outstanding lease rents should be recovered promptly in terms of provisions set out in the lease agreement.

Deniyaya at its full capacity, had not been received from the area, requests had been made on several occasions that the lease rent be revised. It has been decided to look into the issue with the assistance of a committee comprising external institutions having relevant expertise, and take further action by obtaining a report.

Once the Mawarala Estate had been obtained on lease, a drought had destroyed a large area of cultivation, and the cultivation was further affected by a road that had been constructed through the land; as such, relief was requested for the payment of lease rent in arrears. Action is taken to decide in that connection after reviewing the matter.

- b) Management of the Tea Shakthi factory in Kotmale had been transferred to Raigam Plantations Private Limited since 2017 on lease basis. A lease rent amounting to Rs. 63,945,450 along with the penalties for delay had remained receivable from that Company up to 31 December 2019, but that sum had not been recovered up to the end of the year under review.
- Agreed. The buyer of the management had been unable to proceed with the manufacturing process of the factory. Supply of fresh tea leaves for the factory had become a problem, and the management fee of the factory that had depended on the capacity of the factory, had become higher. Under those circumstances, proposals would be sought from the buyer as to how they expect to proceed with the operations of the factory, thereby deciding on future actions.
- The outstanding lease rents should be recovered promptly in terms of provisions set out in the lease agreement.
- c) According to the memorandum of understanding entered into between the Fund and the Raigam Plantations Private
- Agreed. This factory has already been taken over by the Tea Shakthi Fund, and the management
- The outstanding lease rents should be recovered promptly in terms of provisions set

Limited in the year 2017, thereof has been vested in a new out in the lease management of the Mahaweli buyer. The security deposit of agreement. Tea Shakthi factory had been the previous buyer has been transferred to that Company. retained in respect of the However, due to reasons such outstanding management fees, as, difficulties in supplying thus recovering a sum of Rs. fresh tea leaves, and failure in 2,907,000 from the arrears offsetting the expenses against amount. the income, the factory had again been vested in the Tea Shakthi Fund on 14 June 2018. Nevertheless, a sum of Rs. Rs. 13,691,243 comprising lease rents amounting to Rs. 5,327,950 and penalties for delay amounting to Rs. 8,313,293 relating to the years 2017 and 2018, had not been recovered by the Tea Shakthi Fund.

- d) The Walahanduwa tea factory Agreed. Legal action should be owned by the Fund had been At the time of the factory being taken promptly in terms given on lease to Melman taken over from the Melman of provisions of the Private Limited Company on 19 June 2017, but the Private Limited, the Company lease agreement, thus manager's bungalow at the had retained the security deposit recovering the land of the Walahanduwa tea of the factory in lieu of the outstanding amount. factory had been used by the outstanding management fees. A sum of Rs. 4,230,000 had been not be provided for the lessee. recovered. As the lessee had informed that the said bungalow would be required to make the investment expected for the factory, the factory had been taken over by the Fund on 01 June 2018. The said lease agreement had been annulled in the year under review thereby giving the factory on lease to another party. However, the lease rent for the factory and the penalties for delay totalling Rs. 13,987,200 receivable for the years 2017 and 2018 , had not been recovered.

- e) The Tea Shakthi factory , Raigam Korale had been given on lease to the Tea Small Holdings Development Society. As per the 02 Conditions of the lease agreement, the lease rent for 06 months totalling Rs. 1,500,000 should be paid to the lessor by the lessee as a refundable deposit. However, that sum had not been recovered from the year 2016 up to the date of audit. Furthermore, tax installments for the said factory totaling Rs. 5,156,640 from the year 2018 remained receivable to the Tea Shakthi Fund, but that sum had not been recovered even up to the end of the year under review.
- At the present day, the said factory has been taken over by the Tea Shakthi Fund, and action has been taken to transfer the management to the Raigam Tea Small Holdings Development Society. The Raigam Tea Small Holdings Development Society, the new buyer doing the management, had given their consent in order to pay within five years the outstanding amount on tea leaves relating to the period in which the Dikhena Tea Small Holdings Development Society had taken the factory on lease. Having deducted the outstanding lease rent payable to the Tea Shakthi Fund by the Dikhena Tea Small Holdings Development Society from the outstanding amount on leaves included in the said outstanding amount on leaves as being payable to the Dikhena Tea Small Holdings Development Society, the Raigam Tea Small Holdings Development Society and the Dikhena Tea Small Holdings Development Society had agreed through the memorandum of understanding to directly make the payment to the Tea Shakthi Fund.
- Legal action should be taken promptly in terms of provisions of the lease agreement, thus recovering the outstanding amount.

3.2 Resources Released to other Associations

Audit Observation	Comment of the Management	Recommendation
When attaching the permanent staff to the other institutions under purview of the Ministry as mentioned in the observations of the Minister of Finance relating to the Cabinet Decision, No. 403/16/1224/726/015-1 dated 13 July	Agreed. The Driver has been retained for the vehicle, No. GG-6407 owned by the Tea Shakthi Fund. The said vehicle along with the Driver had been attached to the Tea Small Holdings	Salaries paid to the officers released to external institutions should be reimbursed.

2016 giving approval to restructure the Fund, action should be taken to pay the salaries and wages of the staff under consent and budgetary provisions of the relevant institutions. Nevertheless, three Management Assistants and a Driver had been released to the Rubber Development Department and the Tea Small Holdings Development Authority respectively. Salaries totaling Rs. 1,459,614 and Rs. 1,822,298 had been paid by the Fund for the years 2018 and 2019 respectively.

Development Authority based on the requirement of Tea Shakthi welfare division. The other employees had been attached based on the service requirements then existed at the other institutions. Action is being taken to hold discussions with the relevant institutions in due course, thus making reviews in that connection.

3.3 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>According to the verdicts returned on the cases filed by the employees of the Fund before the Labor Tribunal against the Fund, a compensation totaling Rs. 37,122,988 had remained payable to the employees as at 31 December 2019. Furthermore, in the year under review, 38 cases at the Labour Tribunal, a case at the Supreme Court, 25 cases at the High Court and a case at the court of the Workman's Compensation were in progress.</p>	<p>Agreed.</p>	<p>Action should be taken in terms of Circulars and Cabinet Decisions when terminating the service of the staff.</p>

4. Accountability and Good Governance

4.1 Planning

Audit Observation	Comment of the Management	Recommendation
<p>As per Paragraph 04 of the Public Finance Circular, No. 01/2014 dated 17 February 2014, an Action Plan with a long-term vision should have been prepared to achieve the objectives set out in the Act by</p>	<p>Agreed. Having been restructured following the Cabinet approval, the Tea Shakthi Fund functions as a separate division of this Ministry. As such, a Corporate</p>	<p>Action should promptly be taken to prepare plans in accordance with the Cabinet Decision.</p>

including the activities stated in the Cabinet Decision for restructuring the Fund. However, it had not been so done.

Plan and an Action Plan have not separately been prepared for the Fund. Action is taken to prepare the Corporate Plan and the Action Plan after obtaining approval by presenting the Cabinet with recommendations in due course relating to maintaining the institution.

4.2 Budget

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
Every public corporation shall prepare a budget in respect of every financial year in terms of Section 8(1) of the Finance Act, No. 38 of 1971. However, no budgets had been prepared for the years 2017, 2018, and 2019.	Agreed. The Tea Shakthi Fund functions as a separate entity under purview of the Ministry of Plantations, and the expenses on the Fund are incurred by the Ministry; hence, provision for such expenses are made under Head of Expenditure of the Ministry. Nevertheless, action is being taken to prepare the annual budget by estimating the revenue receivable and the expenses to be incurred in the future.	A budget should be prepared annually in terms of provisions set out in the Circular.