

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Sri Lanka Tea Board for the year ended 31 December 2019 comprising the statement of financial positions as at 31 December 2019 and the statement of income, statement of comprehensive income, 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 the 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 2019, 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 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 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 intend 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

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 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 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 its organization, systems, procedures, books, reports 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 tea 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 tea board.
- Whether the tea board has performed according to its powers, functions and duties; and
- Whether the resources of the tea board, had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Comments of Management	Recommendation
(a) Although income and expenditure should not be setoff except as per the Sri Lanka Financial Reporting Standards in accordance with paragraph 32 of Sri Lanka Accounting Standard 01, profit from the disposed of assets amounting to Rs. 211,488 as at 31 December 2019 of the board were offset by the expenditure on maintaining foreign offices and stated in the financial statements.	Profit from the sale of items purchased from the promotion fund was Rs. 211,488 accounted for under the promotion and marketing levy.	According to paragraph 32 of Sri Lanka Accounting Standard 01, income and expenditure should not be setoff.
(b) Sri Lanka Accounting Standard 16		
i. Although the board continued to utilize the fully depreciated laboratory equipment, furniture and fixtures and office equipment amounting to Rs. 81,316,077, the effective life time of those assets had not been re-assessed in accordance with the above standard.	Revaluation of several regional offices and tea development / inspector offices were completed and the relevant accounts were adjusted in the year 2019. Noted to revalue all of others and make adjustments in the year 2020.	The effective lifetime of assets should be re-assessed and accounted for in accordance with Sri Lanka Accounting Standards.

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| ii. The land stated in the financial statements where the head office is located valued at Rs. 350,000,000 had not been re-valued in accordance with paragraph 34 of the standard after the date of 31 December 2008. | The re-valuation of land and buildings should be done by the Department of Valuation. However, noted to re-valuation in the year 2020 and make adjustments in the financial statements in delay. | The land where the head office is located should be re-valued in accordance with paragraph 34 of 16 of the Sri Lanka Accounting Standard. |
| iii. When a property, plant or equipment item is re-valued in accordance with paragraph 36 of the standard, the whole group of the property, plant and equipment is to be re-valued, but the board shall not re-valued furniture fittings and office equipment during the year under review. | In the year 2020, an internal committee conducted a complete re-valuation of the whole group of property, plant and equipment at the head office and noted that all reports should be submitted expeditiously. | When re-valuating assets in accordance with paragraph 36 of 16 of the Sri Lanka Accounting standards, the whole group of plant equipment should be re-valued. |

1.5.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments of Management -----	----- Recommendation -----
(a) The cost incurred by the board for the second phase of the Baduraliya Regional Office, which was completed at the end of the year under review was Rs. 9,401,645. But, with regard to it Rs. 13,200,000 had been accounted for work in progress account. No action had been taken to capitalize on this construction.	The cost incurred at the Baduraliya Regional Office was Rs. 9,401,645 should be debited to the work in progress account and the shown balance of Rs. 13,200,000 was incorrect. It is an estimated cost. This error was corrected in the year 2020.	The value of work completed in the contract at the end of the year under review should be accounted as work in progress.
(b) Although the Baduraliya Regional Office had not paid the amount due for the construction of the second phase by December 31 of the year under review, Rs. 5,601,986 had been accounted as to be paid to the Department of building for the construction.	The credit balance arising from showing the estimated cost as work in progress is also incorrect. That has been corrected in the year 2020.	Only existing liabilities at the end of the year under review should be accounted as creditors.
(c) Although the mobilization advance of the contract worth Rs. 2,160,663 had been collected from the contractor for the contract completed by 31 December of the year under review, accordingly no action had been taken to settle the commencement advance account.	The mobilization advance has also been adjusted accordingly in the year 2020.	The account should be settled after the board has recovered the work mobilization advance from the contractor.

- (d) The fixed deposit interest income for the year under review was Rs. 199,798,378 which was accounted as fixed deposit investment instead of as interest receivable. When preparing the final accounts for the year 2020, noted to present the fixed deposits and the receivable interest as two items as mentioned in the query. Receivable interest income at the end of the year under review should be accounted as receivable interest.
- (e) The worth Rs. 2,385,000 revenue of distribution license and revenue of tea factory registration renewal for the next year was accounted as revenue for the year under review. Noted to correct that in the preparation of accounts for the year 2020. Revenue for the next year should be accounted as current liabilities.

1.5.3 Incompatible control accounts or records

	Subject	Value according to Financial Statements	Value according to corresponding records	Difference	Comments by Management	Recommendation
(a)	Laboratory income	11,499,886	12,748,400	1,248,514	Applications amounting to Rs. 12,748,400 have been received for laboratory tests and submitted to the recommendation of the Deputy Commissioner of tea (Exports). Accordingly, applications only worth Rs. 11,499,886 have been submitted for tests. Accordingly, only the amount recommended for tests has been obtained and accounted by the Finance Division.	A system should be designed to be comparable of laboratory income reports and income reports of the Finance Division.

(b)	Laboratory consumer Goods	6,450,193	6,784,355	334,162	Laboratory consumer goods of Rs. 334,162 were underestimated in the final stock count. Accordingly, this amount will be corrected by the journal of 2020.	According to the physical stock verification records, the balance should correspond to the balance in the financial statements.
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1.6 Accounts receivable and payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
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(a) Even though it had been entered in to a decision with the Janatha Estate Development Board and the tea board to take over the ownership of the "Ceylon tea museum" in Hanthana belonging to the Janatha estate development board and write off the receivable balance of Rs. 25,000,000 from the Janatha estate development board according to directives given by the Committee on Public Enterprises held on 19 June 2012 but, the process had not been completed until 31 May 2020.	A decision has been taken to take over the land on which the "Ceylon tea museum" building is located and to write off the loan balance for the amount of Rs. 25 million given to JEDB. Will be get action to expedite the calculation of nominal interest and balance adjustments for the acquisition of property with the approval of the board of directors by calculating the nominal interest on the lease applicable to the land used by the Sri Lanka tea board and the loan of Rs. 25 million granted by Sri Lanka tea board to the Janatha Estate Development Board.	According to agreed by the both parties, the loan should be recovered expeditiously.
(b) Although the worth Rs. 975,255 foreign travel expenses of a group including a former Minister and a former	The former Minister and his staff were paid to travel abroad. The ministry has been informed by letter to send the money to Sri Lanka	The amount spent on foreign travel for the external parties should be recovered.

Additional Secretary to the Ministry are shown as a balance due for a period of 2 years, no action had been taken to recover. tea board and no progress has been made so far. However, will be take necessary action to return this money as immediately.

- (c) Out of the Rs. 51,604,457 paid to foreign embassy offices for the global tea party in 2017, the remaining Rs. 1,078,054 from 15 countries had not been returned by the end of the year under review. The balance of the amount given to the embassies for the global tea party has been checked and the relevant documents have been submitted to the Chief Accountant of the Ministry of External Relations and it has been informed that the money deposited in the general deposit account of the ministry will be released to the Sri Lanka tea board immediately and will be follow up on this matter. Action should be taken to return balance of the payment given for specific purposes immediately as the work is completed.

1.6.2 Payables

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Although a sum of Rs. 3,204,264 that had been deposited in the board by the tea factory owners for the payment to green tea leaves suppliers from 01 to 16 years, action had not been taken to make payments.	Once the parties to the receipt of money have been investigated and bills and documents of the leaf suppliers have been verified, the leaf money will be paid through the regional office where the plant is located. Accordingly, new funds have to be added to those accounts and the existing funds have to be paid. In some cases, due to the inability to properly identify the recipients of money and the complexity of inquiries caused by the letters submitted by various parties, the payment has been delayed from time to	The payable parties Should be properly identified and action should be taken to resolve the case expeditiously.

time. Accordingly, in case of failure to identify suitable applicants, the deposits will be refunded to depositors. In case of unresolved issues, I kindly inform you that action will be taken to act in accordance with the instructions given to the Board of Directors and to pay dues expeditiously during this year.

(b) No action had been taken to settle Rs. 906,611 withheld money from completed contracts over two years.	Withholdings from contracts up to year 2017 will be credited to revenue in 2020 due to that have not yet been applied.	Steps should be taken to identify the relevant parties and settle or credit the income if it is confirmed that they are not claiming.
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of Management	Recommendation
(a) Section 13 and 14 of the Sri Lanka Tea Board Act No. 14 of 1975.	According to provisions of the act, the Cess tax should have been credited to tea fund but, contrary to it had been credited to the treasury.	Initially, the tea board levied Cess tax in accordance with the provisions of the tea board act, but the Cess tax was taken over by the treasury under the Export Development Act which was later passed. Action will be taken to obtain necessary instructions from the Attorney General to amend the tea board act. So far no legal advice has been received.	The act should be amended on the instructions of the Attorney General to resolve this issue about Cess tax.

(b) Tea control Act
No.51 of 1957

(i) Section 22(1)

Although refuse tea licenses should be issued only to registered refuse tea vendors, permits have been issued for the purchase of refuse tea for the year 2019 at 05 processing centers belonging to the Galle regional office whose registration has not been renewed.

The normal procedure of the Sri Lanka tea board is to check the application form after issuing the application for renewal of the registration with the previous year's registration and issue the transport license until the registration is renewed and to update or suspend the registration of the centers as per the instructions and analysis of the deficiencies in the examination of the application.

Should comply with section 22(1) of the Tea Control Act No. 51 of 1957.

(ii) Section 24(2)(d)

(i)At the time of inspection, acceptable documents should be submitted regarding the sale of consumable tea separated from the refuse tea, but during the audit , on-site inspections did not provide sales information and the tea board did not pay attention to this matter.

There is no requirement that black tea obtained from the processing of refused tea obtained from the refused tea processing center should be submitted to the Colombo tea auction. Action will be taken to provide in this regard.

Action should be taken to obtain information on sales in terms of section 24(2)(d) of the Tea Control Act No. 51 of 1957.

(ii)Refuse tea processors were required to complete the separation of consumable tea from refuse tea before the expiration of the permits, but no action was taken.

The black tea is separated from the refused tea obtained on the refused tea license, the remaining waste tea is reprocessed in a non-reusable manner, converted into fertilizer and the relevant notes are recorded in ledger and submitted to the regional office. Accordingly, 182,129 kg had been reprocessed on 31 October 2019.

According to section 24(2)(d) of the Tea control act No. 51 of 1957, tea inspectors should inspect the timely separation of consumable tea from refuse tea.

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| (c) Section 11 of the Finance Act No. 38 of 1971 | As at 31 December 2019, the board had invested Rs. 7,780,196,625 in fixed and short term deposits, but had not obtained the approval of the relevant minister and the minister of finance. | The import tax collected by the Sri Lanka tea board is always invested in the Bank of Ceylon in a manner favorable to tea board and it is impractical to obtain the approval of the minister of finance for each investment. | According to section 11 of the Finance Act No. 38 of 1971, approval of the relevant minister and the minister of finance should be obtained. |
| (d) Directives of the committee on Public Enterprises held on 21 September 2018 | The pesticide chemical ingredient analyzer purchased in the year 2009 at a cost of Rs. 32,132,088 had not been used up to date of this report due to non-compliance with the board's expected specifications. Although 11 years ago, internal disciplinary inquiries against those responsible have not been completed. | A preliminary investigation officer was appointed on 23 April 2018 to investigate and report on whether there is any discrepancy on the part of the board officer in purchasing the relevant machinery and he resigned from the investigation on 23 May 2019. Thereafter, preliminary investigations will be carried out to appoint a new investigating officer by 20 December 2019. | Carry out the relevant investigation without delay and take appropriate disciplinary action. Making arrangements to prevent such shortcomings from recurring. |
| (e) Paragraph 9.14 of Public Enterprises Circular No. PED/12 dated 02 June 2003. | The board was required to prepare a procedural manual for the formulation of rules for human resource management and obtain the approval of the treasury, but manual had not been prepared until end of the year under review. | The procedural manual for the formulation of rules and regulations pertaining to the human resource management of the Sri Lanka tea board is being drafted and will be submitted to the board of directors for approval in future. | The procedural manual should be prepared expeditiously. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to an surplus of Rs. 4,229,253 and the corresponding surplus in the preceding year amounted to Rs.43,977,748. Therefore a deterioration amounting to Rs.39,748,495 of the financial result was observed. The main reasons for the deterioration are the increase of development expenditure in 26.66 percent and administrative expenditure in 10.95 percent.

2.2 Ratio Analysis

The current ratios for the year under review and previous year were 1:14 and 1:8, respectively. It was due to the fact that the short-term investment fixed deposit of the promotion and marketing levy represented 77 percent of the total current assets. The current liability of the current year decreased by 39 percent compared to the previous year was affected to the high current ratio of the year under review.

3. Operational Review

3.1 Non-economic transactions

	Audit Observation	Comments of Management	Recommendation
(a)	During the “Nuwara Eliya wasantha udanaya” festival which was held in the Nuwara Eliya during the month of April 2019, Rs.11,101,750 spent for a concert to promote the name “Ceylon tea” to attract the attention of local and foreign tourists and the city was illuminated during the month of April. It was observed that when spending money, it has not been economical, effective and prudent and it does not identify the direct benefits to the tea industry from such expenditure. Although the board of directors had approved this at the meeting held on 13 March 2019, it had expressed dissatisfaction in this regard.	The majority of foreign tourists visit Nuwara Eliya and Kandy in Sri Lanka during the month of April. In April and March 2018, 233,000 and 180,000 tourists arrived respectively. Accordingly, we estimate that the same number of tourist arrivals will occur in 2019. In March 2019, 244,000 foreign tourists and in April 167,000 foreign tourists arrived in Sri Lanka and most of them visited to Nuwara Eliya and Kandy. The benefits of Nuwara Eliya Wasantha Udanaya cannot be quantified in one year and it is particularly successful in terms of the amount of money spent due to the large number of foreign tourists visiting.	When spending on promotion, focus on promotional strategies to achieve the goal.

3.2 Identified Losses

Audit Observation	Comments of Management	Recommendation
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<p>(a) The contract for the construction of concert stage during the Wasantha Udana period in Nuwara Eliya was awarded to the third lowest bidder at Rs. 5,250,000. The bid of contractor who had initially submitted a bid of Rs. 4,180,000 was rejected due to it had not been received for a period of 60 days, although other qualifications had been fulfilled. However, it was observed that the time limit for awarding and completing the work was only 10 days and the board had incurred a loss of Rs. 1,070,000 as the contractor who had obtained the contract had not fulfilled this requirement.</p>	<p>The lowest bidder for this contract had not participated in such a special event organized by any other public sector undertaking and the bid submitted by the bidder for technical equipment for the promotional activities to be implemented by the Sri Lanka tea board in Nuwara Eliya spring season and there was no certainty about the capabilities to be obtained under the prices given by the bidder. Accordingly at last, the Technical Assessment Committee considered that the quality of the campaign could be affected by the situation and decided to reject the bid as they felt that they had small chance of completing the task in a very short period of time like 2 weeks. I would also like to point out that in the promotions implemented by the board targeting foreign tourists, not only the minimum price but also always expected the significant value for money.</p>	<p>The specifications should be prepared as per the requirements of the board and the bids of all the bidders should be evaluated on an equal basis without prejudice to the institution.</p>
<p>(b) The shortage of receivable stock of Rs. 534,604 from a private tea packaging company for a period of two years and damaged tea packaging stock of Rs. 780,646 had not been recovered by the end of the year under review.</p>	<p>Action will be taken to reimburse the amount of Rs. 534,604 to be charged for wholesale shortages from the amount paid to the tea packaging company. Negotiations are underway with the agencies to recover the value of damaged packages amounting to Rs. 780,646.</p>	<p>The cause of the delay should be immediately investigated and this amount should be recovered from the customer or any negligent officer in the board.</p>

3.3 Management Inefficiencies

Audit Observation	Comments of Management	Recommendation
(a) Although the maximum amount of tea stored in the refuse tea permits issued by the board to the refuse tea processing center registration no. RT 189 in Udunuwara Division belonging to the Gampola regional office is Rs. 23,473 kilograms; beyond that the audit observed 38,864 kilograms stock of refuse tea had been stored. No action had been taken until the audited date of 30 May 2020 to charge a fee for this offense and settle.	The relevant stock of tea has not been released yet and action will be taken to recover the offense fee as per the provisions of the Tea Control Act.	According to the Tea Control Act, offense fee should be charged expeditiously.
(b) The microbiological analysis of the Sri Lanka Tea Board laboratory observed that the refuse tea was below standard to black tea in the refuse tea processing centers where the tested sample in audit. This processed tea is used for local consumption, but the board did not pay attention to this.	In response to the query from the tea inspector, he stated that the place could not be inspected as it was closed at the time of the inspection. The case has been filed in Gampola court by the Velamboda police station after being inspected and sealed on 20 October 2019. The case was examined on 25 October 2019 and letters to the commissioner of tea No. TC/STI/2014-78 dated 22 October 2019 have been ordered to reprocess the contaminated tea stocks on 25 October 2019 with a fine of Rs. 25,000 each and release the standard stocks to them.	Tea inspectors should monitor the stock of unsuitable tea for consumption in refuse tea centers.
(c) In 2015, Rs. 3,489,773 given to the Bandarapola tea factory to pay the leaf suppliers to maintain a minimum price of Rs. 80 for green leaf had not been paid to the leaf suppliers, but it had not been recovered	Under the Rs. 80 minimum price payment scheme for green leaf in 2015, Rs. 3,489,773 was paid to the MF 0370 Bandarapola tea factory for payment to the leaf suppliers and due to non-payment of that, a case has been	According to the judgment of the case, action should be taken about the recoverable money.

- by the end of the year under review. filed in Gampola court under the No. B 564/2017 to recover the money through the financial fraud investigation division of the Sri Lanka Police.
- (d) Although the Western Provincial cabinet had approved to lease the land to the Sri Lanka tea board In a long term agreement for a period of 30 years from year 2014 on which the Kalutara regional office is located. However the lease agreement had not been signed with the Palindanuwara Divisional Secretary until the end of the year under review. A tax of Rs. 300,000 is paid annually for this land to the Divisional Secretary of Baduraliya and at last, the tax for the year 2019 has been paid on 22 July 2019 and a letter has been sent on the same day requesting that the lease be given for this land in the name of Sri Lanka Tea Board. Urgent action should be taken to reach a lease agreement between the two parties.
- (e) Rs. 889,870 (RMB 33 389.74) refunded by the Government of China to the embassy of China for the vehicle purchased in year 2018 for the tea promotion unit in China had not been brought to the board until the end of the year under review. The China tea promotion office paid the tax amount of RMB 33,389.74 for the vehicle purchased in year 2018 to the Ministry of foreign relations. The amount of Value Added Tax (VAT) refunded to the board should be recovered expeditiously.
- (f) By the end of the year under review, the board had not been taken legal action to acquire ownership of 4 lands in Nuwara Eliya, Bandarawela, Kalutara and Rathnapura which had been constructed buildings at a cost of Rs. 211,115,401. These lands have been acquired on a long term lease basis and despite repeated requests to the relevant Divisional Secretariats to transfer or lease the ownership of the lands; the process had not been completed due to some delays by the Department of Land Commissioner. However, I would like to mention that there are constant request for land acquisition. Action should be taken to acquire the ownership of land expeditiously.
- (g) The Secretary to the ministry of plantation industries stated to take appropriate action against the officials who acted By decision of the board of directors, the tea shop at the racecourse ground was opened. The board of directors decided Should follow the instructions of the Secretary to the ministry.

recklessly in the letter sent to the Chairman by dated 06 December 2016 regarding the loss of Rs. 62,603,006 due to non-effective manner of the “tea moments” tea marketing center which was started without a feasibility study, but overcoming that the board of directors decided that disciplinary action was inappropriate.

that it was not appropriate to recover the loss from tea board officials.

- (h) A foreign private company was paid Rs. 629,261 for the “foodexpo Syria” exhibition scheduled to be held in Syria in the year 2012. Although the exhibition had been canceled, it was still being carried forward in the accounts.
- The “food expo Syria” exhibition to be held in the year 2012 in Syria was canceled due to the military situation. Letters were sent to recover the advance of Rs. 629,261 but no progress was made. These matters will be submitted to the board of directors and action will be taken to deduct this non-refundable advance as a loss.
- Arrangements should be made to recover the paid amount or to write it off in books with a formal approval.

3.4 Operational Inefficiencies

Audit Observation	Comments of Management	Recommendation
<p>(a) At the end of the year under review, there were 920 tea factories registered with the board, but of these 190 were non- active factories. Accordingly, the number of non-active factories compared to the registered tea factories was 21 percent and the total tea production in Sri Lanka continued to decline from 2014 to the year under review.</p>	<p>Tea factories are inactive due to various reasons and in some cases the registration has been suspended due to non-compliance with the provisions of the Tea Control Act. Also tea production has declined due to weather or climate changes.</p>	<p>The board should focus on preventing the closure of tea factories as the regulatory body of the tea industry.</p>

(b) According to action plan of the board for the year under review, Rs. 85,500,000 had been allocated to implement development activities under 04 programmes and the actual expenditure was Rs. 71,746,234. The following observations are made in this regard.

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| <p>(i) From the replanting tea cultivation subsidy paid under 05 phases, due to non-replanting of tea in the 73.42 hectare by farmers who received Rs. 8,394,074 as subsidy for the first and second phases, the intended purpose of providing the subsidy had not been achieved and the amount had not been recovered.</p> | <p>Although sum of Rs. 8,394,074 was paid for 73.42 hectares for the first and second phases of the tea replanting subsidy paid under 05 phases, the relevant applicants had not informed to the tea board about the next phases. Meanwhile, the relevant land owners were informed to repay the amount immediately. However, tests will be started immediately and action will be taken to recover the money if it is not cultivated.</p> | <p>Farmers who have not replanted tea should be directed to cultivate or reimbursed.</p> |
| <p>(ii) Although the progress report of the board stated that 172.7 hectares of tea was replanted with tea replanting subsidies of Rs. 25,560,830, according to audit evidences, the actual area under tea replanting was only 51.6 hectares during the year under review.</p> | <p>According to progress reports of the tea board, tea has been replanted and after examining each of these applications, it will be possible to make submissions regarding the area of 51.6 hectares mentioned in the audit report.</p> | <p>Adequate database should be maintained to provide acceptable expeditious answers to audit observations.</p> |
| <p>(iii) Although the board had paid Rs. 480,000 to a local plantation company for the first two installments under the tea replanting subsidy</p> | <p>A sum of Rs. 480,000 had been paid to the Kelaniweli plantation company for 04 hectares for the first two phases</p> | <p>When making new subsidies, should be considered whether the previously paid subsidies have been</p> |

scheme, no action had been taken to replant the tea and Rs. 550,000 had been paid again without recovering that amount for replanting the tea under the “Model Tea Gardening” programme.

under the tea replanting subsidy scheme. An acre of this area is the most suitable place as model cultivation in Nuwara Eliya area under the 2019 model tea cultivation project. This place has been paid for land preparation and soil conservation for the same area. Accordingly, the remaining 3.5 hectares of land will be re-cultivated and the amount paid for this acreage will be reduced in future subsidies.

used for the intended purpose.

- (iv) The board had spent Rs. 5,337,161 on printed media programmes and Rs. 2,236,559 on good manufacturing practices during the year under review to improve the quality of green leaves. Although the cost of the project has been increasing year on year, it has not been confirmed that there has been a significant improvement in the quality of tea leaves.

Due to the prevailing weather conditions, the quality of tea leaves has been maintained at the present level due to the programmes implemented by the Sri Lanka Tea Board to improve the quality of leaves. At present there are no “weak” factories in the field of Good Manufacturing practices (GMP) and only a handful of average factories. The number of excellent and good quality factories has increased. This situation has been achieved due to the Good Production Methodology programme that the board continues to implement.

Money should be spent on better strategies to improve the quality of green leaves.

(c) The cabinet decision dated 01 December 2011 approved the implementation of a “Strategic plan for the promotion of Sri Lanka tea” during the five years period from 2012 to 2016. The following observations are made regarding this programme which was planned to be implemented using eight billion rupees from the expected earnings of taxes collected from exporters.

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| <p>(i) A contract was entered with a private company for a period of one year from 06 November 2015 to 05 November 2016 to carry out production and creative activities related to this programme at a cost of Rs. 328,423,200 (USD 2260000) and by the end of the year under review Rs. 238,185,575 had been paid. Although the contract was awarded for a period of one year, 04 years had elapsed by the end of the year under review but the relevant work had not been completed. Therefore, the above agreement has been extended to 05 May 2020 on 03 occasions. Also, three years after the television advertisement for this programme was created in April 2016 at a cost of Rs. 99,630,039, it has not been able to telecast in the media as expected until the date of report.</p> | <p>Although Phoenix O&M signed an agreement on 06 November 2015 for creative products, it will enter into an agreement to purchase media consulting services on 21 March 2018. Accordingly TV Commercials produced at a cost of Rs. 99,630,039 were delayed from being used for broadcasting. However, the above advertisement was telecasted on NTV in a series of tea promotions in association with NTV, Russia. Due to the above delays, the Phoenix O&M agreement was extended for 04 years and 06 months and the Sri Lanka tea board was able to complete its creative work on 05 May 2020. Phoenix O&M and Sri Lanka tea board have agreed to complete all of these agreements within a period of 03 months from 05 May 2020, without further extension.</p> | <p>Relevant programmes should be telecast during the relevant period when the promotion is planned to get more effective results.</p> |
| <p>(ii) A press conference was held in Russia and Ukraine in September 2019 at the payment of Rs. 29,832,302 to a private Russian company in related with this programme, but no further promotions were made.</p> | <p>The board of directors approved the launch of the global promotion programme in Russia and Ukraine in 2019. Accordingly, it was decided to start the public relations campaign first and the selection process for the public relations work in Russia and Ukraine will be completed through the</p> | <p>Money should be spent after reviewing the effectiveness of the programme.</p> |

relevant tender procedure on 27 August 2019. Cabinet approval for a selected agency and the Attorney General's Department required for the relevant agreement. The agreement with the selected agency was delayed due to the delay in the approval of the department. The press conference scheduled to be held in Russia and Ukraine about the launch of the global promotion programme through procurement programmes began in Russia in September and Ukraine in October, in line with the programme recommended by the above selected agencies. Subsequently, planned tea tasting programmes were also implemented in the shops. However, after 16 November 2019, the new governing body decided to reconsider the programme and the first board meeting of the proposed board of directors was convened on 03 January 2020 and the board of directors sought the advice of the advertising and marketing committee informed.

- (iii) Rs.219,899,960 had been contracted with a private company in the Colombo area to media survey related to this programme for providing consultancy services from 21.03.2018 to 20.03.2020 on above the line and below the line for media plan preparation and media buying. Accordingly, the preparation of the media plan for the 12 countries is expected to be completed by the end of September 2018, but by the end of
- On 21 March 2018, entered into 03 years agreement with Dentsn Grant institute to complete media surveys for media purchasing consulting services and Dentsn Grant institute completed 12 countries and developed media plans for 07 countries by 2019. Accordingly, the relevant payments were made for those media plans.
- Planned tasks should be performed within the planned time period to get the most effective benefits.

the year under review, the media plan was only for Russia and Ukraine. At the end of the year under review, Rs. 5,749,828 had been spent in excess of the budget for media surveys and preparation of media plans.

- (iv) Although the contract for creative and media work of the programme was awarded to 02 of the above private companies, in addition to the promotion unit of the board, a team consisting with three marketing members was hired on a contract basis to carry out the work of the programme. Although Rs. 5,128,926 had been spent for this purpose during the year under review, the expected activities could not be carried out due to delays in the implementation of this programme.
- According to the strategic plan for the promotion of Ceylon tea, a marketing cell was proposed for the activities of the global promotion programme. Accordingly, the functions of 06 officers were determined and approved by the Department of management services for 04 officers. Accordingly, although newspaper advertisements were published twice to recruit officers for those posts, the vacancies could not be filled due to the market mismatch between the relevant salaries and qualifications. Accordingly, three officers with relevant knowledge were recruited on contract basis. It also explains the difficulty of doing this global promotion work from the staff of the real promotion division who were engaged in the service according to the strategic plan. Accordingly, global promotion should take place with a special staff.
- Officers recruited on contract basis for specific assignments should be deployed for the relevant task.
- (v) In 2011, when the global tea market share for Sri Lankan tea was 18 percent, cabinet approval was granted to design a five-year strategy programme based on the
- When considering the decline in the share of Sri Lankan tea in the global market from 18 percent to 15 percent, global tea
- Promotional strategies should be implemented to retain existing customers and

need to implement an effective promotion programme. Two years had passed since the five-year deadline, but the plan had not been implemented effectively. Sri Lanka's share of the global tea market has fallen to 15 percent by the end of the year under review, according to statistical data from the international tea committee.

production in the year 2011 was similar to that of Sri Lankan tea which had a share of 7 percent, but by the year under review it had dropped to 5 percent. Sri Lankan tea production in the year 2011 was 327 million and in that year 322 million were exported. Ceylon tea exports decreased to 300 million during the year under review, but Ceylon tea exports increased at 292 million. When considering the relevant years, exports recorded 98 percent as the percentage of the production. The decline in Sri Lankan share of the world market is due to the increase in the representation of the African region as a percentage by the increase in tea production and exports in the African region.

attract new customers within the planned period.

3.5 Controversial Transactions

Audit Observation	Comments of Management	Recommendation
<p>As two cars belonging to the board have been handed over to the Institute of National Plantation Management Institute since the year of 2016 without entering into an agreement, Rs. 3,013,106 had been spent on private taxis which met the transport requirements of the board during the year under review. However during the audit, it was observed that the Institute of National Plantation management had spent Rs. 898,250 to repair these vehicles</p>	<p>The board of directors decided that further repair and use of 02 double cabs belonging to the board was non-economic activity. The secretary to the Ministry of Plantation Industries instructed us to provide these 02 double cabs for the use of Institute of National Plantation Management while they were being disposed in the year 2016. Accordingly, I would like to state that the two institutions have reached an agreement on instructions of the secretary to the Ministry of Plantation</p>	<p>The resources of the board should not be released to other institutions.</p>

and used in good condition. Therefore, it is further observed that the recommendation made by the board of survey that these vehicles are useless is controversial.

Industries regarding the supply and obtain of the vehicle for use. The 02 double cabs could not be used to meet the transportation requirements during the year under review. That reason is not affected to use private taxis and private taxis were used because there were not enough vehicles in the fleet to use for the official travels of the tea board officers.

3.6 Underutilization of funds

Audit Observation	Comments of Management	Recommendation
The board received a subsidy of Rs. 6,738,000,000 from the treasury to pay the green leaf suppliers to maintain a minimum price of Rs. 80 and out of that, Rs. 912,229 had been retained without remittance to the treasury from 31 December 2015 until the end of the year under review.	Out of the Rs. 6,738,000,000 subsidy received from the treasury, the remaining Rs. 912,229 remains in the tea board account. This amount has been withheld to pay the leaf suppliers of Green Hiltop MF1196 who have not been able to complete the payment due to various complaints and issues.	The investigation should be expedited and the dues should be paid and the balance should be remitted to the treasury.

3.7 Procurement Management

Audit Observation	Comments of Management	Recommendation
(a) Although the GCMS/MS machine is inactive that was installed in the laboratory for the analysis of existing pesticide residues in tea, Rs. 50,000,000 had been allocated in the budget for the years of 2018 and 2019 for the installation of a new machine, but the procurement had not been completed. As the result, laboratory revenue was decreased 44 percent from the previous year.	Provisions were made for the purchase of this item in the revised budget for the year 2019. A Technical Evaluation Committee was appointed on 19 June 2019 and the report of Technical Evaluation Committee was prepared and submitted on 10 October 2019. Accordingly, public newspaper advertisements were published and bids were called on 16 October 2019. As the specifications mentioned in 3 bids submitted do not match the specifications recommended by the Technical evaluation Committee, it is recommended to re-bid for the relevant item on 02 December 2019. However, it has been included in the 2020 budget and purchasing has begun.	Necessary procurements should be made in timely for the operational activities of the board.

- (b) On 10 May 2019, an agreement was made with a private company in the Colombo area to create a computerized inventory control system at a cost of Rs. 3,000,000 to maintain the internal inventory control system of the board. Accordingly, it was to be completed within 19 weeks, but the work had not been completed until the audited date of 30 May 2020.
- The contract was awarded in the year 2018 and the development of the stock control software system began by mid-May 2019. It took about 08 months to enter the required data and provide staff training, providing information etc. Subsequently, work activated to begin the stock control system by February 2020, but could not be completed due to the Covid 19 menace in March. However, work is underway to install the system by 31 July 2020.
- The software system needs to be installed expeditiously to maintain proper internal stock control systems.
- (c) On 18 October 2016, the cabinet approved the preparation of an Information Technology system for the tea industry and the budget for the year 2018 provided Rs. 260,200,000 for this purpose. By the end of the year under review, the work had not commenced and Rs. 885,000 had been spent on consultancy services.
- The report of the technical committee on the development of an Information Technology system for the tea industry was submitted to the procurement committee of the ministry on 07 June 2019. The committee was delay to giving a decision and the procurement decision was given on 06 June 2020. Now, relevant bidders have been given the opportunity to protest against the procurement decision.
- Procurement should be done in a timely manner without any delay.

3.8 Human Resources Management

Audit Observation	Comments of Management	Recommendation
<p>There are two posts of Director (Tea promotion), six posts of Assistant Director (Promotion) and four posts of marketing officer for the board of marketing. Approval had been obtained from the Department of management services in the year 2017 for a new post as Deputy Director General (Marketing) for marketing promotion without identifying the need.</p>	<p>The secretary to the Ministry of plantation industries informed that the cabinet approval has been granted to create this post and accordingly action will be taken to fill the vacancy. Accordingly, the recruitment procedures for the post were prepared and submitted to the Board of Directors. As the cabinet has approved the creation of a Deputy General Director (Marketing), the Board of Directors decided to formulate a recruitment procedure for the post. I would like to inform you that the cabinet has identified the need to create this post.</p>	<p>Action should be taken to get approval for the staff as per the requirement of the board.</p>

3.9 Budget

Audit Observation	Comments of Management	Recommendation
<p>During the year under review, Rs. 500,000,000 was allocated for the brand promotion programme and Rs. 30,000,000 was allocated for the promotion activities of 20 programmes conducted with embassies, but there was no financial requirement for the year 2019 as planned for the brand promotion programme and Rs. 997,377 was spent on only 05 programmes conducted with the embassies. Therefore, it was observed that the budget had been allocated without identifying the need.</p>	<p>Cabinet approval was granted for the brand promotion methodology for the year 2018/2019. Accordingly, agreements between the Sri Lanka tea board and tea exporters will commence in early 2019. Therefore, the agreements of the first exporters will expire on 31 December 2019 and the financial allocation will commence in the year 2020. Therefore, the allocated financial resources will not be utilized but the relevant budget for the year 2019 will be submitted to the Ministry in June 2018 and these delays are difficult to identify.</p>	<p>The variations identified later should be included when the preparation of revised budget.</p>