

Transactions Report of the Tea Shakthi Fund - 2023

The audit of the operational activities of the Tea Shakthi Fund for the year ended 31 December 2023 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 the provisions of the National Audit Act No.19 of 2018. My comments and observations on the functionality of the Fund which I consider should be reported to Parliament appear in this report in pursuance of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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

In terms of Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16(2) of the said Act, annual financial statements in respect of every auditee entity shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports of those entities within such period as may be provided by rules. In terms of Section 38(1) (d) of the said Act, the Chief Accounting Officer of an auditee entity shall ensure that it is required to prepare annual reports and other financial statements within the required periods and the Chief Accounting Officer shall be responsible to submit the annual reports to Parliament pertaining to the auditee entity.

2. Audit Observations

2.1 Presentation of Financial Statements

As per section 3 of Public Finance Circular No.01/2020 dated 28 August 2020 and the Financial Regulations 877(2) (d), even though the financial statements of the Fund with the performance report should be submitted to the Auditor General with a copy to Department of Public Finance of General Treasury within 02 months after end of the accounting year, the financial statements for the years ended from 2018 to 2023 had not been submitted to the Auditor General even up to the date of this report.

2.2 Existence of assets and liabilities

The details of assets, liabilities, income and expenses as indicated in the financial statements as at 31 December 2017 finally prepared by the Fund are given below.

Item	Value (Rs.)
Assets	
Non-current assets	330,180,601
Current assets	336,013,484
Total assets	666,194,085
Equity	65,649,484
Liabilities	
Non-current liabilities	361,756,280
Current liabilities	238,788,321
Equity and total liabilities	666,194,085

Total revenue	225,624,996
Total expenditure	41,159,092
Profit	184,465,904

2.3 Functionality of Fund

Tea Shakthi Fund had 12 factories and a Fertilizer warehouse at Mawarawatta, Horana and management of those had been leased to the private parties. As per the agreements entered into, the total recoverable lease amount from Mawaralawatta and 07 factories was Rs.120,418,779 as at 31 December 2023. The Fund had continuously gained losses since 2011 to 2015 and the equity capital of the Fund was gradually reducing also. Accordingly, equity capital worth of Rs. 124.058 million in 2012 had become a minus value of Rs.111.65 million in 2015. On these conditions, the approval of the Cabinet of Ministers had been granted to vest the functions of the Tea Shakthi Fund to the Secretary of Ministry of Plantation Industries and restructure by the Cabinet Decision No. අමප/16/1224/726/015-I dated 13 July 2016 and the Cabinet Decision No. අමප/16/1427/726/015-II dated 17 August 2016. Similarly, as per the Cabinet Decision No. අමප/23/0615/616/014 dated 18 April 2023 under caption of “Purchase of the shares back to Tea Shakthi Fund from the shareholders of Tea Shakthi Fund”, the approval of the Cabinet of Ministers had been granted to take over the relevant share ownership to Tea Shakthi Fund by payment back the nominal value of Rs.10 per share to the shareholders of Tea Shakthi Fund and only utilize the earnings of the Tea Shakthi Fund for that purpose.

2.4 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Since the action should be taken to charge the late fee of 1 percent from the lease amount for every day elapsed on non-payment of monthly lease rental payable as per the lease agreement on or before first day of the following month, an amount of Rs. 1,503,860,053 had to be charged as late fee on non-payment of lease amount as at 31 December 2023. In accordance with the decision of new Cabinet of Ministers, even though that had been granted to amendment of late fees, no late fee had been charged so far.	Since the late fee amount charged 1 percent per day is a higher amount, the approval of Cabinet of Ministers had been obtained for amendment the relevant late fee as 10 percent per year. Accordingly, it is due to be reduced the late fee informed and 06 month grace period had been provided to recover the relevant amount. Accordingly, the action will be taken in the future.	As per the Cabinet Decision No. අමප/24/1984/716/002 dated 29 October 2024, the action should be immediately taken to charge the late fee.
(b)	For a period of 10 years from 30 January 2017 to 29 January 2027, the management of Kothmale Tea Shakthi Factory had been handed over to a private company through a memorandum of understanding and 02 month concessionary period had been	The relevant information had been referred to the Attorney General's Department to commence the legal proceedings for recovery of all money to Tea Shakthi Fund	As per the Cabinet Decision No. අමප/24/1984/716/002 dated 29 October 2024, the action should be immediately taken to

	<p>given to pay the management fees since the date of commencement of the agreement. As at 31 December 2023, recoverable total outstanding management fee was Rs.39, 843,000 (except late fee) and the lessee had paid Rs.4, 617,000 i.e. only 11.6 percent from the recoverable amount up to 30 June 2024.</p>	<p>having taken over the factory charge the outstanding management fee.</p> <p>again due to not functioning as per the memorandum of understanding entered into.</p>
(c)	<p>Kothmale Tea Shakthi Factory had been established in a land obtained on lease basis from Sri Lanka Mahaweli Authority in accordance with the Crown Lands Ordinance and even though Rs.7, 059,744 had been paid by Tea Shakthi Fund to Mahaweli Authority during the period 2017-2023, only an amount of Rs.4, 617,000 had been obtained by Tea Shakthi Fund as management fees by lease this property to a private company. It was further observed that the action had been taken to cover the lease rental paid for the land by Fund or charge an adequate management fee from the company.</p>	<p>The relevant information had been submitted to Attorney General's Department to commence the legal proceedings for recovery the outstanding amount.</p> <p>The management should take action to efficiently and effectively utilize the properties belonging to Fund and As per the Cabinet Decision No. අම/24/1984/716/002 dated 29 October 2024 the action should be immediately taken to recover the outstanding management fees and late fees.</p>
(d)	<p>After the Kotmale factory was taken back to the Fund on 25 January 2023 due to non-payment of management fees, the Fund had paid an electricity bill of Rs. 581,987, which was not paid by the lessee for the period for which the lease was granted, without recovering it from the party receiving the relevant lease.</p>	<p>Relevant information has been forwarded to the Attorney General's Department, requesting that legal action be initiated to recover outstanding electricity bills and all other outstanding amounts.</p> <p>Immediate action should be taken to recover all unpaid arrears from the lessee.</p>
(e)	<p>The management of the Mawarala Estate and the Mawarala Factory had been transferred to a private company on 28 April 2017 and the total outstanding installment value for the said estate and factory was Rs.11,022,500 and Rs.30,030,750 respectively as of 31 December 2023.</p>	<p>The factory had been retransferred on 15 August 2023 due to non-compliance with the agreement and relevant information has been forwarded to the Attorney General's Department, requesting that legal action be initiated to recover all outstanding amounts as of that date.</p> <p>Immediate action should be taken to recover outstanding management fees in accordance with the Cabinet Decision No. අම/24/1984/716/002 dated 29 October 2024.</p>
(f)	<p>When the Mawarala Estate was leased, it consisted of a 42-acre tea plantation and a</p>	<p>The Mawarala Estate was taken back over to the Tea Shakthi</p> <p>Immediate actions should be taken to put</p>

	tea nursery within a land area of 100 acres. According to clause 18 of the lease agreement, tea should be re-cultivated on 12 acres of the leased property at a rate of 02 acres per year and although the lessee had agreed to plant tea plants, the lessee had not acted accordingly.	Fund on 15 August 2023 Due to non-compliance with the agreement.	the Mawarala Estate Land Fund to productive use or transfer it to a new lessee.
(g)	Although the Fund had leased the said property through lease agreements, the audit query regarding the factory lease issued in 2021 had revealed that the boundaries within the 100-acre area had not been properly measured and the land had not been allocated, leading to the use of the land by external parties. However, the boundary settlement had not been carried out by the end of 2023.	The relevant settlement was delayed due to the misplacement of the original plan of the Mawarala land and as the original plan is currently in the possession of the Tea Shakthi Fund, the necessary actions are being taken to expedite the settlement process.	Immediate measures should be taken to survey the Mawarala Estate land, clarify the boundaries and allocate the plot without delay.
(h)	The Deniyaya Tea Shakthi Factory was leased to a private company for a period of 10 years starting from 17 November 2016 to 16 November 2026 and the outstanding management fee as of 31 December 2023 was Rs. 4,099,223. Although the outstanding management fees of Rs. 01 million each, including the monthly installment, had to be paid according to the agreement reached with both parties regarding the payment of these management fees, the private company had not paid accordingly. The Fund had also not paid attention to the recovery of the outstanding funds.	The Lessee has been informed in writing that actions should be taken act in accordance with the agreement regarding the payment of the outstanding tax and if he fails to do so, the relevant factory will be taken over by the Tea Shakthi Fund.	Immediate action should be taken to recover outstanding management fees In accordance with the Cabinet Decision No. අමස/24/1984/716/002 dated 29 October 2024.
(i)	The Balangoda Tea Shakthi Factory had been leased to a private party for a period of 10 years from 11 April 2017 and the late fee or revised late fee of Rs. 2,283,512 due from that institution as of 31 December 2023 had not been collected even up to date.	Currently, the Cabinet of Ministers has approved the revision of the relevant late fees and further action is due to be taken accordingly.	Prompt action should be taken to recover outstanding late fees in accordance with the Cabinet Decision No. අමස/24/1984/716/002 dated 29 October 2024.
(j)	The management of the Gilimale Tea Factory had been leased to a private party	The relevant agreement is not a sub-lease agreement but it is	In accordance with the Cabinet Decision No.

	for a period of 10 years on 24 November 2016 and the private lessee party had entered into an agreement No. 2539 dated 20 March 2023 with a third party regarding the management and administration of the factory. However, the factory had been taken back over to the Fund and as of 31 December 2023, the outstanding taxes and late fees due to the Tea Shakthi Fund were Rs. 16,651,911 and Rs. 167,414,915 respectively.	merely an agreement entered into between the lessee and another party regarding the operation of the relevant factory. However, the relevant lessee violated the terms of the lease agreement and the factory was transferred back to the Tea Shakthi Fund on 16 August 2023.	අමුණ/24/1984/716/002 dated 29 October 2024, immediate action should be taken to recover outstanding management fees and late fees.
(k)	Although it was decided in accordance with the Ministry Secretary's letter No. MPI/TSF/ACC/EIP/FAC and the committee discussion on the payment of outstanding management fees dated 17 January 2023, that is 1/5 of the total outstanding management fees due by 31 December 31, 2022 from the lease of the Elpitiya Tea Shakthi Factory, Rs. 559,000, should be paid before 01 February 2023 and the balance should be paid in 4 equal installments within 04 months before 01 June 2023, only Rs. 1,096,500 had been received by the Fund by 31 December 2023 and action had not been taken regarding the late fees due on the payment of taxes.	Since approval of the Cabinet of Ministers has now received to amend the condition for collecting the late fee of 1% per day, further action is scheduled to be taken accordingly.	Immediate action should be taken to recover outstanding management fees and late fees in accordance with the Cabinet Decision No. අමුණ/24/1984/716/002 dated 29 October 2024.
(l)	The Deraniyagala Tea Shakthi Factory had been leased to a private company for a period of 10 years from December 2016 to December 2026 and the outstanding lease rental as of 31 December 2023 was Rs. 13,328,395. Although according to the agreement reached with both parties regarding the payment of the outstanding rent, a portion of the rent of Rs. 425,000 per month was to be paid to the Fund, the private company had not paid the due rent for the months of October, November and December of 2023 and the Fund had not paid due attention to the recovery of the outstanding rent.	The lessee has been called to the committee appointed to make recommendations regarding the Tea Shakthi Fund on 25 October 2024 and discussed the matter, during which the lessee has agreed to pay the relevant outstanding tax in installments. Accordingly, further action is scheduled to be taken.	Immediate actions should be taken to recover the outstanding tax amount in accordance with the Cabinet Decision No. අමුණ/24/1984/716/002 dated 29 October 2024.
(m)	The total outstanding management fee amount due from the lease of the	The lessee was called to the committee appointed to make	Immediate action should be taken to

	<p>Raigamkorala Tea Shakthi Factory as of 31 December 2023 is Rs. 5,400,000 and the total outstanding late fee amount due is Rs. 3,396,033. Although according to the agreement regarding the payment of outstanding management fees, an amount of Rs. One million per month was to be paid to the Fund; the said portion of the money had not been paid since April 2023.</p>	<p>recommendations regarding the Tea Energy Fund on 25 October 2024 and discussed the matter and the lessee has agreed to pay a monthly installment of Rs.300,000/- each of the outstanding rent. Accordingly, further action is scheduled to be taken.</p>	<p>recover outstanding late fees in accordance with the Cabinet Decision No. අමස/24/1984/716/002 dated 29 October 2024.</p>
(n)	<p>Although the case regarding the recovery of Rs. 19,211,584 from a private company for the sale of finished tea during the periods 2006 and 2007, along with legal interest up to the date of the judgment, was decided in favor of the Tea Shakthi Fund, the defendant party has appealed again and the amount had not been recovered by the end of the year under review.</p>	<p>The Order of Court appeal is due to be issued on 8 January 2025 and further action is scheduled to be taken accordingly.</p>	<p>Action should be taken without delay to recover the money in accordance with the Court of Appeal's judgement.</p>
(o)	<p>The Tea Shakthi Fund had provided a loan of Rs. 700,000 per factory at an annual interest rate of 18.5 percent under the project to activate inactive tea factories belonging to the private sector in the year 2001. Since 6 private tea factories had not paid the loan amount and interest as per the agreements, the amount due as on 31 December 2023 was Rs. 4,963,162.</p>	<p>A case has been filed in the Colombo District Court against the relevant parties to recover the debt.</p>	<p>Since the debt balances have been outstanding for over 20 years, immediate actions should be taken to take further action in accordance with the court judgement.</p>
(p)	<p>Since the boundaries of the Tea Shakti lands have not been accurately identified and surveyed, legal steps have not been taken to date to clear those lands from unauthorized occupants.</p>	<p>Preliminary work has initiated to conduct the necessary surveying to clarify the boundaries of the lands belonging to the Tea Shakthi Fund.</p>	<p>Immediate actions should be taken to accurately survey and settle the assets owned by the Tea Shakti Fund.</p>
(q)	<p>It was observed during the audit that although the plot of land in extent 8.2 perches belonging to the Balangoda Tea Factory had been occupied by unauthorized persons, the Fund had not taken any legal action in this regard.</p>	<p>Since there is a case filed by the Small Tea Estates Development Authority in 2007 against unauthorized occupants of the Balangoda factory site, it is not possible to carry out the surveying the factory site, after the relevant judgement is made, surveys will be conducted and if other unauthorized occupants are</p>	<p>Immediate actions should be taken to settle the assets of the Fund in accordance with the judgement.</p>

identified, further action will be taken accordingly.

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| <p>(r) Although the outstanding license fee and fine payable under the concession period up to 31 December 2021 for the period during which the income licenses of the cabs bearing Nos. 53-4601 and 53-4435 belonging to the Coconut Development Authority and the Talawakelle Plantation Company used by the Tea Shakthi Fund were Rs. 93,125 and Rs. 95,550 respectively, due to the non-obtention of licenses during that period, Rs. 186,690 and Rs. 180,385 respectively had been paid as license fees and fines for the 02 cabs. Accordingly, it was observed during the audit that the Tea Shakthi Fund had incurred a non-monetary expenditure of Rs. 178,400 and that the cabs had been parked at the Horana Fertilizer Warehouse without being used since the period 2008/2009.</p> | <p>The cabs are not in running condition. Since those vehicles have not obtained revenue licenses since 2003, it has been impossible to dispose of, sell or transfer the relevant vehicles. However, since the relevant institutions had given approval in 2021 to transfer the relevant vehicles to the Ministry of Plantations, license fees and fines had to be paid to obtain revenue licenses to take over those vehicles. Accordingly, after obtaining revenue licenses, those vehicles have been transferred to the name of the Ministry of Plantations and the necessary procedures are currently being followed to sell them.</p> | <p>Appropriate actions should be taken against the officers who held responsible for non-economical expenses and immediate steps should be taken to ensure efficient and effective use or disposal of vehicles.</p> |
| <p>(s) Although the Fund has the ability to maintain the utilization of under-capacity factories at an optimal level and increase tax income by increasing the production of raw leaves by leasing out the Mawarala Estate, which has a cultivable land area of 58 acres, the necessary actions have not been taken to date.</p> | <p>Although a lease agreement had been entered into on the agreement to cultivate the uncultivated lands when in leasing the Mawarala Estate the lessee has repossessed the Mawarala Estate due to the breach of the terms of the relevant lease agreement. Agreements are to be entered into on the agreement to cultivate the uncultivated lands in the future when the estate is re-assigned to external parties.</p> | <p>The Mawarala Estate land should be given to a new lessee on correct and formal agreements, to increase tea leaves production and bring the utilization of the factories to an optimal level and there should be proper monitoring of the terms of the lease agreements.</p> |