

Rubber Research Board of Sri Lanka - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Rubber Research Board of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Delay in Presentation of Financial Statements

Although the annual financial statements should be presented to audit within 60 days after closure of the financial year in terms of Public Enterprises Circular No.PED 12 dated 02 February 2003, the financial statements had been presented on 31 May 2012 with a delay of 91 days.

1.2.2 Sri Lanka Accounting Standards

The following observations are made.

- (a) A balance of surety bond creditors under the long term liabilities valued at Rs.5,658,067 that should not be included in the statement of changes in equity in terms of Sri Lanka Accounting Standards No.03 had been included in the above statement.

- (b) Although surety bond debtors that remained for more than 15 years without taking legal action for recoveries amounting to Rs. 4,746,939, for which the recovery was doubtful, should be shown only by notes to the balance sheet as contingent assets in terms of Sri Lanka Accounting Standards No.36, it had been brought to account as debtors.
- (c) Works in progress amounting to Rs.599,022, Rs.385,235 and Rs.587,770 relating to the office buildings of Dartonfield, Galewatta, and Ratmalana respectively had been entered in the Buildings Account contrary to Sri Lanka Accounting Standards No.18.

1.2.3 Accounting Deficiencies

The following observations were made.

- (a) Instead of conducting the annual Boards of Survey, the book value of stocks amounting to Rs.15,607,989 had been brought to the accounts. As such, it was observed that the losses due to damages, losses etc., had not been disclosed in the accounts.
- (b) A debtors balance and a creditors balance valued at Rs.4,000,000 had arisen due to incorrectly entering the entry for cancellation of cheques received for Treasury grants valued at Rs.4,000,000 and as such the debtors and creditors had been overstated by the same amount.
- (c) Although it was not shown that provision for depreciation are made according to the depreciation policy of the Institution, provision for depreciation amounting to Rs.110,465 had been made for the year under review in respect of assets such as tea replanting and cinnamon replanting.

1.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) It was observed that 10 receivable balances valued at Rs.7,762,507, 134 ordinary debtor balances valued at Rs. 3,904,237, 21 other debtor balances valued at Rs.2,255,278 and 11 deposits balances valued at Rs.411,122 had existed for more than 10 years and evidence had not been submitted to ensure that those balances were being recovered.
- (b) Seven balances of advances payable valued at Rs.2,061,814 and 02 balances valued at Rs.341,373 included in the creditors balances of the Dartonfield Estate had continuously existed and action had not been taken to settle them.

1.2.5 Lack of Evidence for Audit

Evidence shown against the following items of accounts had not been submitted.

Item of Accounts	Value	Evidence not Submitted
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	Rs.	
Fixed Assets	296,197,981	Register of Fixed Assets
<u>Current Assets</u>		
Ordinary Debtors	10,428,895	Confirmation of Debtors Balances
Balances Receivable	6,180,006	Confirmation of Balances

Current Liabilities

Creditors	26,062,940	Age Analysis of Creditors
Advances Obtained	1,232,195	Confirmation of Balances

	340,102,017	
	=====	

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The following non compliances were observed.

Particulars	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

F.R. 257	Payment vouchers valued at Rs.143,993 had not been certified by the relevant officers
F.R. 756	Although advances should be settled immediately after completing the purpose for which it was granted, a period from 01 month to 05 months had taken to settle the advances valued at Rs.102,730.
F.R 571 (3)	Although miscellaneous deposits amounting to Rs.42,796 had existed for more than 16 years

from the date of deposit, it had not been credited to the government revenue in terms of Financial Regulations.

(b) Paragraph 6.3.6 of the Procurement Guidelines

Although at least 02 members should participate in the meeting for opening bids called for purchasing office equipment valued at Rs.282,500, only one member had signed for his participation.

(c) Finance and Planning Circular No.MF/6/1/3/2000.

Although reimbursement of expenditure incurred for obtaining passport should have been Rs.2,500, a sum of Rs.5,000 had been overspent due to reimbursement of Rs.7,500.

2. Financial Review

2.1 Financial Results

The operations of the Board during the year under review after taking into account the Government grant for recurrent expenditure amounting to Rs.183,100,000 had resulted in a surplus of Rs.18,547,965 as compared with the corresponding surplus of Rs.20,184,562 for the preceding year after taking into account the Government grant for recurrent expenditure amounting to Rs.181,050,000. The financial results for the year under review had indicated a deterioration by Rs.1,636,597 as compared with the preceding year. Increase of establishment and administrative expenditure by 8 per cent had attributed for this deterioration.

2.1.2 The financial results relating to yielding rubber cultivation of the Dartonfield Estate in extent of 181.61 hectares and Kuruvita Estate in extent of 68.79 hectares had increased at the rate of 10 per cent and 30 per cent respectively. Details are given below.

Estate	2011	2010	Increase	Percentage of Increase
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				%
Dartonfield	55,595,555	50,497,431	5,098,124	10
Kuruvita	31,741,133	24,364,387	7,376,746	30

2.1.3 Analytical Financial Review

The following observations are made.

- (a) When considering with the grants received from the Treasury during the year under review the total revenue of the Board amounted to Rs.196,888,110 and it had increased by 4 per cent as compared with the total revenue amounting to Rs.188,829,435 for the preceding year.
- (b) Total expenditure of the fund for the year under review amounted to Rs.259,821,971 and it had increased by 9 per cent as compared with the expenditure amounting to Rs.239,361,885 for the preceding year.
- (c) Profits earned during the year under review from four estates such as Dartonfield, Kuruwita, Kumarawatta and Narampola amounted to Rs.18,547,965 and it was Rs.70,717,013 in the preceding year and as such the profit had increased by 15 per cent during the year under review.

2.2 Operating Review

2.2.1 Performance

- (a) Particulars relating to the position of the revenue received and expenditure for the year under review for the estates are given below.

	Revenue for the year	Expenditure for the year	Surplus / Deficit
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	Rs.	Rs.	Rs.
Dartonfield	101,264,758	45,669,203	55,595,555
Kuruwita Estate	47,799,570	16,058,437	31,741,133
Kumarawatta	1,116,840	4,730,467	(3,643,627)
Narampola Watta	208,456	2,449,691	(2,241,235)
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	150,389,624	68,907,798	81,481,827
	=====	=====	=====

Even though the position of exceeding income than the expenditure incurred for Dartonfield and Kumarawatta Estates was observed, expenditure incurred for Kumarawatta and Narampola Estates had exceeded the revenue and as such losses amounting to Rs.3,613,627 and Rs.2,241,234 respectively had incurred

(b) Performance of the Production of Latex

 Particulars relating to the production of latex of the Kuruwita Estate and Dartonfield Estate are given below.

Latex Tapping Estates	2011			2010			Difference			
	Extent of Land of the Rubber Cultivation	Production per hectare	Total Quantity of Production for the year	Value of the Production	Extent of Land of the Rubber Cultivation	Production per hectare	Total Quantity of Production for the year	Value of the Production	Quantity (Decrease/ Increase)	Value (Decrease/ Increase)
	Hectare	Kg.	Kg.	Rs.	Hectare	Kg.	Kg.	Rs.	Kg.	RS.
Dartonfield	181.61	1016	184596	94,080,018	193.04	968	186796	79,923,747	(2200)	14,156,271
Kuruwita Estate	68.79	1495	102825	45,534,926	68.79	1477	101607	37,195,814	1218	8,339,112

The following observations are made relating to the above particulars.

- (i) The production of latex per hectare of the Dartonfield Estate as compared with the Kuruvita Estate had declined by 509 kg. and 479 kg. for the year 2010 and 2011 respectively. The reasons such as the crops of the Kuruwita Estate are the research crops, utilization of rain cover, weather condition, location, convenience for maintenance as the extent of land of the Kuruwita Estate was less and age of the crop had mainly effected for the increase of latex production per hectare of the Kuruwita Estate as compared with the Dartonfield Estate.
- (ii) The production of latex per hectare of the Dartonfield Estate for the year under review had increased by 48 kg. as compared with year 2010.
- (iii) Production of latex per hectare of the Kuruwita Estate for the year under review had increased by 18 kg. as compared with year 2010.
- (iv) Although the volume of production of latex of the Dartonfield Estate for the year under review as compared with the year 2010 had decreased by Rs. 2200 kg., the value of the production had increased by Rs.14,156,271. Average price per kg. of scrape crape rubber of the Kuruwita Estate for the year under review had decreased by Rs.11.86 as compared with year 2010 while average price per kg. of latex had increased by Rs.85.44. Accordingly, the value of total production of the year had increased by Rs.8,339,112.

(c) The progress of the completion as at the end of the year 2011 relating to 100 Research Projects commenced 10 years ago are given below.

Department	Total Units of Projects	No progress	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
(1) Genetic and Plant Breeding	06	-	-	-	-	-	-	-	-	-	-	-
(2) Plant Science	31	-	-	-	-	02	02	02	04	07	03	
(3) Soils and Plant Nutrition	39	-	02	01	-	-	-	-	-	-	-	
(4) Plant Pathology	11	-	-	-	-	-	-	-	-	-	-	
(5) Biochemistry	10	-	-	-	-	01	-	-	-	01	-	
(6) Biometry	01	-										
(7) Adaptive Research Division	02	-	-	-	-	-	-	-	-	-	-	

The following matters were observed relating to the above projects.

- (i) The progress of completion of 03 Projects commenced 10 years ago by the Soil and Plant Nutrition Department was at a lower level of 10 per cent. Projects had been temporarily abandoned due to inability to achieve considerable progress for these projects and more important projects to be carried out according to the funds received.
- (ii) A project which achieved 40 per cent progress, commenced by the Department of Biochemistry had been temporarily abandoned due to inability to refine a condenser obtained.

2.2.2 Management Inefficiencies

The following observations are made.

- (a) A buyer had been selected for selling latex at the sub office, Kuruwita without calling for quotations and latex valued at Rs.41,070,218 had been sold during the year 2011.
- (b) There was no officer in charge of the stores of the institution and it was observed that internal control relating to the stock control was at weak level due to carrying out the duty of purchasing and stores responsibility by a same officer.
- (c) Sums of Rs. 14,751,127 and Rs. 90,000 had been spent for construction of buildings of the Narambola Estate, Alawwa and the Kumarawatta Estate, Moneragala which were possessed under the memorandum of understanding without vesting of the ownership of the land and survey activities respectively.
- (d) Forty five journal vouchers valued at Rs.992,992 out of 144 journal vouchers checked for the year 2011 had been utilized for correcting errors and as such it was observed that internal control on maintenance of accounts was at weak level.
- (e) Stocks valued at Rs.395,877 had been issued to the relevant unit without issuing goods receipt note and taking into the stock register.

2.2.3 Corporate Plan and Action Plan

A Corporate Plan for the period 2012 - 2016 had been prepared. The financial information for the previous years had not been included in the Corporate Plan in order to compare with the forecast of the ensuing years. The financial values relating to the physical targets expected to achieve within 05 years period had not been submitted separately.

3. Accountability and Good Governance

3.1 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of management control as the actual expenditure had exceeded the budgeted expenditure from 07 per cent to 98 per cent relating to 05 items of expenditure during the year under review.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Control over Fixed Assets
- (c) Stocks Control
- (d) Preparation of Payment Vouchers
- (e) Maintenance of Books of Accounts
- (f) Administration on Research Activities carried out
- (g) Maintenance of Registers
- (h) Purchasing