

Rubber Research Board of Sri Lanka - 2012

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 2012 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 Accounting Deficiencies -----

The following observations are made.

- (a) The stocks of other goods valued at Rs.10,932,081, except the stock of rubber had been taken into accounts on the book value instead of the value according to the annual verification of goods. As such it was observed that the losses arising from damage, losses, etc., had not been disclosed in the financial statements.
- (b) Even though the value of latex sales of the Kuruwita Estate for the year 2012 amounted to Rs.36,622, 548 only a sum of Rs.34,456,466 out of that had been brought to the financial statements. As such sales had been understated by a sum of Rs.2,166,082.
- (c) The depreciation on motor vehicles totalling Rs.1,280,021 and the sum of Rs.778,178 received from the sale of motor vehicles relating to the Dartonfield and Kuruwita Estates had not been adjusted to the cash flow statement.

1:2:2 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken for the recovery of the debtors balances older than 05 years amounting to Rs.16,326,874 relating to 405 debtors included in the debtors balance as at the end of the year under review amounting to Rs.28,196,205.
- (b) Action had not been taken either for the recovery or the write off of the advance of Rs.5,214,500 paid by the Rubber Research Board of Sri Lanka to the Department of Consultancy Services in the year 1985 for the construction of a building.
- (c) Action had not been taken even by 15 July 2013 for the recovery from the Department of Rubber Development of the sum of Rs.1,798,731 recoverable for the employees of the Rubber Research Board of Sri Lanka holding membership of Provident Fund of the Board attached to the Department of Rubber Development.
- (d) A sum of Rs,627,984 receivable from the Ministry of Plantation Industries for the training of graduates had been shown continuously in the financial statements without taking action for the recovery.
- (e) Action had not been taken either for the recovery or write off of the security guarantee debtors balances older than 15 years amounting to Rs.4,746,939 on which no legal action had been taken for recovery.
- (f) Action had not been taken for the recovery of a sum of Rs.2,989,277 recoverable from three security guarantee debtors who had defaulted the payment of installments.
- (g) The confirmations in support that the recoveries are being made from the 21 debtors amounting to Rs.2,228,588 existing over periods exceeding 06 years and included in the debtors balance amounting to Rs.11,112,317 shown in Note 3(ii)(c) to the financial statements, had not been furnished.
- (h) Action had not been taken either for the settlement or write off of 19 balances amounting to Rs.1,976,077 included in the advances payable amounting to Rs.9,258,909 shown in the Note No. 08-A-I and the two balances amounting to Rs.341,373 included in the creditor balance of the Dartonfield Estate amounting to Rs.9,760,698.

- (i) Out of balances recoverable amounting to Rs.443,447 shown in Note 3.1 to the balance sheet, the deposit balances amounting to Rs.101,306 receivable from 06 institutions had been balances older than 07 years and any confirmation that those are being recovered had not been furnished to audit.

1:2:3 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to audit.

| <u>Items of Account</u> | <u>Value</u> | <u>Evidence not made available</u> |
|-----------------------------------------------|--------------|------------------------------------|
| | Rs. | |
| (a) Fixed Assets | 398,626,685 | Register of Fixed Assets |
| (b) Normal Debtors | 19,990,736 | Confirmation of Debtors Balances. |
| (c) Balances Receivable of Dartonfield Estate | 8,502,490 | Confirmation of Debtors Balances |
| (d) Advances received | 9,258,909 | Creditors Age Analysis |

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Even though a motor vehicle of the Board released for duties of the staff of the Minister of Plantation Industry had run 4,091 kilometres within 01 month and 04 days, the Daily Running Charts and the Monthly Performance Summary had not been furnished to audit in terms of Financial Regulation 1645.

2. Financial Review

2:1 Financial Results

The operating results of the Board for the year under review after taking into account the grants amounting to Rs.185,705,000 received from the Treasury amounted to a deficit of Rs.68,557,639 as against the surplus of Rs.18,547,965 for the preceding year after taking into account the grants amounting to Rs.183,100,000 received from the Treasury. The financial results for the year under review as compared with preceding year indicated a deterioration of Rs.87,105,604 and represented 475 per cent. The increase of the establishment and administrative expenditure of the Board by 20 per cent as compared with the preceding year, the decrease of the profits of the Dartonfield and Kuruwita Estates by 36 per cent and 44 per cent respectively as compared with the preceding year

and the increase of the loss of Kumarawatta by 42 per cent as compared with the preceding year had impacted the deterioration.

2:2 Analytical Financial Review

The following observations are made.

- (a) The total income of the Board for the year under review including the grants received from the Treasury amounted to Rs.197,880,882 and as compared with the total income of the preceding year amounting to Rs.196,888,110 represented an increase of 0.5 per cent.
- (b) The total expenditure of the Rubber Research Board for the year under review amounted to Rs.312,621,408 and as compared with the total expenditure of Rs.259,821,971 for the preceding year represented an increase of 20 per cent.
- (c) The overall profit earned from the 04 Estates of Dartonfield, Kuruwita, Kumarawatta and Narampola in the year under review amounted to Rs.46,182,886 and that amounted to Rs.81,481,826 in the preceding year. As such the decrease of profit for the year under review had been 43 per cent. The decrease of the gross average sale prices per kilogramme of rubber by 17 per cent as compared with the preceding year, the unfavourable weather conditions and the health problem of the employees in year 2012 had impacted the decrease in the profit.

2:3 Legal Actions Instituted against or by the Board

The following observations are made.

- (a) Three employees had filed 05 cases in Courts claiming . compensation for the termination of services and no consensus had been reached with regard to the compensation payable.
- (b) The Board had filed a case in the Matugama Courts against a person claiming compensation amounting to Rs.730,000 for the failure to return a lorry of the Board taken out for construction of the lorry body.

3. Operating Review

3:1 Performance

(a) Performance on Production of Latex

| Latex Tapping Estate | Rubber Cultivated Extent | Year 2012 | | | Year 2011 | | | | Difference | |
|----------------------|--------------------------|------------------------|------------------------------|---------------------|--------------------------|------------------------|------------------------------|---------------------|--------------------------------------------|---------------------------------------|
| | | Production per Hectare | Total Production in the year | Value of Production | Rubber Cultivated Extent | Production per Hectare | Total Production in the year | Value of Production | <u>Quantity</u> (Decrease/ Increase) | <u>Value</u> Decrease/ Increase |
| | Hectare | Kilogrames | Kilogrames | Rs. | Hectare | Kilogrames | Kilogrames | Rs. | Kilogrames | Rs. |
| Darton-field | 174.8 | 1,096 | 191,590 | 73,448,195 | 181.61 | 1,016 | 184,596 | 90,080,018 | 6,994 | (20,631,823) |
| Kuruwita Estate | 71.29 | 1,403.32 | 100,043 | 36,622,548 | 68,79 | 1,495 | 102,825 | 45,534,926 | (2,782) | (8,912,378) |

The following observations are made in connection with the above information.

- (i) The production of latex per hectare of the Dartonfield Estate as compared with the Kuruwita Estate had decreased by 479 kilogrammes in the year 2011 and by 307 kilogrammes in the year 2012. The increase of latex production per hectare of the Kuruwita Estate as compared with the Dartonfield Estate had been mainly due to the cultivation of the Kuruwita Estate being research cultivations, the use of rain covers, weather conditions, location of land, easy maintenance due to lesser extent of land and the age of the cultivation.
 - (ii) As compared with the year 2011, the latex production of the Dartonfield Estate in year under review had increased by 80 kilogramems per hectare.
 - (iii) As compared with the year 2011, the latex production of the Kuruwita Estate in the year under review had decreased by 92 kilogrammes per hectare. The Board is of opinion that it was due to the health problems of the employees and unfavoruable weather conditions.
- (b) Out of the 84 projects implemented by the Department 10 years ago, the progress of 12 Projects had been below 25 per cent.

3:2 Management Inefficiencies

The following observations are made.

- (a) According to the Service Certificate produced by the officer recruited to the post of Administrative Officer of the Rubber Research Board, possession of 3 ½ years experience in a similar post in a private company during the years 2005 to 2009 had been stated. Nevertheless, it was confirmed that he had received training during 06 months in that company and the Employees Provident Fund returns confirmed that he had served in two institutions during the relevant period. As such it was established that the Service Certificate produced was a counterfeit documents.
- (b) An agreement for a sum of Rs.288,838,759 had been entered into with a contractor company on 28 September 2011 for the construction of an Auditorium in the Dartonfield Office of the Rubber Research Institute at Agalawatta. According to the agreement the Auditorium should have been constructed within 270 days. But the contract had not been completed even by August 2013. The clause for recovery of liquidated damages had not been included in the agreement. As construction work had been done before testing the suitability of the land a

retaining wall had to be constructed an additional cost of Rs.2,007,487 to ensure the safety of the building. Construction work had not been subjected to regular supervision of a officer. Cracks of walls, non-completion of the ceiling and dampness of ground floor walls were observed due to such situation.

3:3 Transactions of Contentious Nature

The following observations are made.

- (a) The Latex valued at Rs.17,341,672 had been sold to a private company over a period of 06 months without entering into an agreement.
- (b) A stock of 3,360 kilogramems of rain cover gum had been purchased for Rs.564,480 from a private company without inviting quotations. It was observed in audit that if the rain cover gum had been purchased from another company the gum could have been purchased for Rs.352,800 thereby saving a sum of Rs.211,680 could have been
- (c) Salaries had been paid to labourers without checking their identity and the salaries of certain labourers had been paid to other persons without the written permission from them. Salaries had been paid to certain employees without obtaining confirmation from the Supervisory Officer that their duties have been performed properly. It was observed in audit that such practices could provide opportunities for commuting frauds by introducing fictitious names.
- (d) The “Rubber Banana Inter-crop Programme” directed by the officer recruited to the post of Additional Director had been scheduled for commence in the year 1998 and completion in the year 2001. Nevertheless, the officer had obtained a sum of Rs.168,000 in the year 2002 as well by adding a sum of Rs.14,000 per month from that fund to the salary. Even though the institution had informed that the project was completed in the year 2003, the relevant file required for the examination of the Project Completion Report to confirm that had not been furnished to audit.
- (e) The driver attached to the Chairman of the Rubber Research Board of Sri Lanka had been attached on daily paid basis. Nevertheless, a sum of Rs.29,949 had been paid as salary and overtime for the days in which he had obtained leave.

4. Accountability and Good Governance

4:1 Corporate Plan and Action Plan

A Corporate Plan for the years 2013 to 2017 had been prepared. The financial information of the preceding years had not been included in the Corporate Plan to facilitate comparison with the forecasts for the ensuing years. The financial value of the physical targets to be achieved during the period of 05 years had not been shown separately.

4:2 Budgetary Control

The utilization of provisions under 05 Objects of the year under review had exceeded estimated expenditure in the ranges of 5 per cent to 75 per cent. Even though the capital expenditure for the year under review had been estimated at Rs.57.4 million, the actual expenditure amounted only to Rs.27.31 million. As such 52 per cent of the estimated capital expenditure had not been utilized. Therefore, the budget prepared by the Board for the year under review had not been made use of as an effective instrument of management control.

5. 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. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Fixed Assets Control
- (c) Stock Control
- (d) Accounting
- (e) Research work Administration
- (f) Purchases