Rubber Research Board of Sri Lanka - 2013

The audit of financial statements of the Rubber Research Board of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 8(2) of Rubber Research Ordinance (Chapter 439) as amended by the Act No. 11 of 1956. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on the Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Financial statements of Dartonfield and Kuruwita Estates owned by the Board had not been prepared in conformity with the Format in Standard 01.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Although the audit fees up to the year 2010 had been paid by the Board as at 31 December 2012, action had not been taken to include the overprovision amounting to Rs. 981,102 allocated since then , in the income of the year under review.

(b) Provision for Retirement gratuity amounting to Rs. 491,400 had not been made for 15 employees who had been drawing daily wages since the year 2006.

(c) Stocks worth of Rs. 7,013,298 had been accounted on book values without being verified by the end of the year under review.

(d) A fire that broke out on 24 January 2014 had totally destroyed the stock of rubber, smoke house, drying tower and the radiator system of the Dartonfield rubber factory. Although it was estimated that repairing the factory would cost Rs. 4,600,000, it was not disclosed in the accounts as events after Balance Sheet date.

2.2.3 Lack of Evidence for Audit

Information such as agreements related to miscellaneous project grants amounting to Rs. 13,460,425 stated in the accounts as other capital grants, capital goods received as grants and their values, dates of receipts of those grants, dates of completion of projects, dates of commencing amortization and rates of amortization, was not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to recover balances that remained outstanding for more than 05 years amounting to Rs. 15,186,913 related to 667 debtors included in the normal and other debtor balances amounting to Rs. 22,757,836 by the end of the year under review.

(b) Action had not been taken even during the year under review to settle an advance amounting to Rs. 5,214,500 given to the Department of Consultancy Services in the year 1985 by the Board for the construction of a building.

(c) A sum of Rs. 1,747,981 receivable from the Rubber Development Department from the year 2000 up to the end of the year under review with regard to the employees attached to the said department holding the membership of Employees Provident Fund of the Board, had not been recovered.

(d) A sum of Rs. 712,426 receivable from the Ministry of Plantations since the year 2000 for the training of graduates, had been continuously stated in the financial statements. However, action had not been taken to recover that amount.

(e) Out of the project debtor balances totaling Rs. 10,940,983 that remained outstanding for more than 07 years, it was not established that 22 balances amounting to Rs. 3,776,532 were being recovered.

(f) Action had not been taken to settle the balances amounting to Rs. 411,013 that remained recoverable for more than 08 years from 11 institutes, included in the receivable balance totaling Rs. 426,013.

(g) Accounts payable totaling Rs. 15,526,699 had included a sum of Rs. 298,577 that remained payable to Janatha Fertilizer Company since the year 2002 had not been settled even up to 08 December 2014, and it was observed that the relevant bills were not in the possession of the Board.

(h) Creditor balances of Rs. 627,318 that remained outstanding for 2-5 years and payable to 43 institutes, and Rs. 5,788,450 that remained outstanding for more than 5 years and payable to 139 institutes, had been shown in the accounts continuously. However, action had not been taken to settle those balances.

(i) Action had not been taken to include the overtime amounting to Rs. 66,457 with respect to the year 2008. Instead, it had been shown in the accounts as payable.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following instances of non - compliance were observed.

Reference to Laws, Rules and Regulations		Non compliance
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(a) Financial Regulation 371(2)	(I)	Ad hoc sub imprests totaling Rs. 48,000 obtained by 02 officers , had been retained in hand for a period ranging from 13 days to 02 months , and the total amount had been re-deposited.

(II) Settlement of ad hoc sub imprests totaling Rs. 158,000 obtained by 12 officers had been delayed for a period ranging from 3 – 10 months.

(b) Financial Regulation 396	Action had not been taken in accordance with Financial Regulations on cheques exceeding 06 months valued at Rs. 166,426 and not submitted to the bank after being issued.
(c) Financial Regulation 1646	Summaries of running charts relating to pool vehicles had not been prepared.

3. Financial Review

3.1 Financial Results

The operating result of the Board for the year under review had been a deficit of Rs.84,950,295 as compared with the deficit of Rs.68,627,910 for the preceding year. The financial result for the year under review as compared with preceding year indicated a deterioration of Rs.16,322,385 and represented 24 per cent. The increase of the salaries and wages of the Board by 7 per cent as compared with the preceding year, the decrease of the profits of the Dartonfield Estate by 42 per cent , and the increase of the losses of Kumarawatta and Narampola Estates by 34 per cent and 31 per cent respectively had attributed for this situation.

3.2 Analytical Financial Review

The following observations are made.

(a) Except for the expenses incurred on the estates in the year under review, the total expenditure of the Board amounted to Rs. 320,648,346 , which was an increase of 2.56 per cent as compared with the total expenditure of the preceding year amounting to Rs. 312,621,408.

(b) The overall profit of the Dartonfield and Kuruwita Estates was Rs. 39,908,882. The decrease of the profit for year under review was 25.7 per cent as it was Rs. 53,689,073 for the preceding year. The overall loss of the Kuramarawata and Naramapola Estates amounted to Rs. 9,997,046 , and the increase of the loss for the year under review was 33.2 per cent as the loss for the preceding year amounted to Rs. 7,506,187. In considering the overall profit earned from the 04 Estates in the year under review amounted to Rs.29,911,836 and that amounted to Rs.46,187,887 in the preceding year. As such, the decrease of profit for the year under review was 35.2 per cent. The decrease of the sale prices of rubber by 9 per cent as compared with the preceding year, the unfavorable weather conditions, and the higher salaries of employees had attributed the decrease in the profit.

3.3 Legal Cases Instituted By or Against the Board

Three persons had filed 3 cases against the Board claiming compensation for termination of their services.

4. Operating Review

4.1 Performance

The production of latex per hectare of the Dartonfield Estate as compared with the year 2012 had decreased by 63 kilogrammes in the year under review whereas, the production of latex per hectare of the Kuruwita Estate had increased by 08 kilogrammes.

4.2 Management Inefficiencies

The following observations are made.

(a) A sum of Rs. 12 million had been allocated for the Board in order to distribute plants of rubber among the owners of small rubber estates in the year under review under the "Divi Neguma" national development program. Plants of rubber had been purchased and distributed in 5 districts namely, Hambanthota, Ampara, Mulativu, Vauniya, and Monaragala. The following observations are made in this regard.

(i) A sum of Rs. 5,353,051 had been overspent including amounts of Rs. 956,700 and Rs. 4,396,351 for purchasing and transportation of plants respectively by exceeding the provisions amounting to Rs. 12 million allocated for the program in the year under review.

(ii) Plants of rubber valued at Rs. 12,956,700 had been purchased in the year under review without being adhered to the Government procurement procedure.

(iii) Cost for transporting plants had exceeded 25 per cent of the overall expense due to reasons such as, failure to purchase plants from nurseries closer to areas where the plants are distributed, disagreement with the minimum number of plants to be transported at a time, and failure to follow proper guidelines to calculate distances of transport and number of turns. The transport cost per plant was approximately Rs. 20

(iv) Plants of rubber valued at Rs. 1,001,440 had been destroyed due to unsafe transportation, and action had not been taken to recover the loss from the transporters.

(v) It was observed at a sample check on payment vouchers for purchasing and transportation of rubber plants that a sum of Rs 9,220,452 had been paid through 23 payment vouchers without a formal approval.

(b) As smoke house and drying tower of the Dartonfield rubber factory that had been totally destroyed due to a fire broken out on 24 January 2014 , and a sum of Rs. 4,600,000 had been estimated to be spent on reconstruction, had been insured for a value as low as it's historical book value amounting to Rs. 936,000, the insurance indemnity received had been limited only to Rs. 702,518. An unskilled Management Assistant and a disabled Office Assistant had been appointed to the factory in place of the retired Factory Officer. It was revealed that the fire had broken out due to their lack of technical know-how and negligence However, the Board had not taken necessary action to conduct a formal inquiry against the officers responsible.

(c) As contributions to the Employee Provident Fund totaling Rs. 40,511,901 for the period from January to December in the year under review with respect to 04 estates owned by the Board had been made after a delay ranging from 18 days to 05 months, a sum of Rs. 437,662 had to be paid to the EPF as surcharges.

(d) The Board had filed a case at the District Court, Mathugama, claiming compensation amounting to Rs. 730,000 against a person who had not returned a lorry owned by the institute after taking it away for the construction of the chassis. Though accused had pleaded guilty following the verdict. Action had not been taken to recover the amount even up to 08 December 2014.

(e) Contrary to the provisions in paragraph 3.4 of the Procurement Circular No. NPA 08 dated 25 January 2006, paint valued at Rs. 1,109,115 had been purchased in 09 instances from 10 January 2013 to 13 September 2013 in the name of an another registered buyer, instead of being in the name of the Board, and the VAT amounting to Rs. 118,833 had also been paid under the name of the same buyer.

4.3 Commencement of Projects on Lands not properly vested

The Committee on Public Accounts had directed on 02 October 2012 that the ownership of the Kumarawatta and Narampola Estates be taken over before the end of February 2013. Nevertheless, the Board had not taken over those estates even up to December 2014. A sum of Rs. 8,320,000 had been allocated as a hypothetical rental since the year 2006 for those estates. National Budget Department had been requested for a sum of Rs. 27,250,000 in order to take over the ownership.

4.4 Weaknesses of Contract Administration

The Following observations are made.

(a) A private institute had been awarded the contract for the construction of the auditorium of the Board on 28 September 2011 at a cost of Rs. 28,838,759, and the construction should have been completed within 270 days. The construction was still underway even by September 2013. The Board could not recover demarrages as conditions on demarrages had not been included in the agreement. A sidewall had to be built for the safety of the building as the construction had been carryout without testing the suitability of the land. Construction of the sidewall had also been awarded to the contractor by incurring an additional expense of Rs. 2,007,487.

(b) Despite the estimated value of Rs. 3,548,580 for the installation of air conditioner and electric lamps at the auditorium, an agreement for a sum of Rs. 4,199,456 had been entered into with the aforesaid institute.

(c) A fresh estimate had been obtained from another institute after the contract being awarded by stating that the installation of electric lamps at the main auditorium had been unclear as per the initial estimate, and according to the new estimate, the expenditure for the said work amounted to Rs. 3,747,845.00. It had later been decided to carry out only selected activities valued at Rs. 1,301,160 from the estimate.

4.5 Utilization of Vehicles

The following observations are made.

(a) Losses amounting to Rs. 1,392,269 had incurred in the year under review due to 05 vehicle accidents. Action had not been taken to recover losses amounting to Rs. 185,372 that had not been covered under insurance, from the responsible parties. Instead, the loss was borne by the Board.

(b) Fuel consumption of vehicles had not been regularly tested and recorded in log books.

4.6 Idle and Underutilized Assets

Six motor vehicles had remained parked at the premises of the board over a long period without being repaired.

4.7 Personnel Administration

The following observations are made.

(a) The approved cadre of the Board was 470 whereas, the actual cadre was 355. Twenty one approved number of posts of senior management related to operational activities , 27 posts of middle level management, 56 posts of junior management , and 11 posts of primary level, had remained vacant.

(b) Although it is the mission of the Board to promote the rubber industry by providing the training and consultancy services cultivators, and the manufacturers of rubber items with the state-of-the-art technology identified through economically productive, and environmentally-friendly and sustainable inventions, attention had not been adequately drawn on the research staff which was the main mechanism of achieving the said mission. Even by December 2014, sixty seven posts vital for the research activities, including 08 posts of Heads of Research Division, 07 posts of Principal Research Officers 12 posts of Senior Research Officers 14 posts of Research Officers 23 posts of technical research officers and 03 posts of Instructors remained vacant over several years.

(c) Many weaknesses in administration such as, frequent amendment of recruitment and promotion procedure in a manner favorable to predetermined persons, failure to implement exam inactive procedure with transparency , officers at lower grades overriding their immediate superiors and involving with exchange of official letters, and direct involvement of officers at higher grades with lower rankers irrespective of relevant divisional heads, had been observed to be hampering the accomplishment of objectives of the institute.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Annual accounts should be presented to audit within 60 days after the lapse of the financial year as per Circular No. PED/12 dated 02 June 2003. However, accounts of the Board had been presented to audit after a delay of 05 months and 13 days.

5.2 Corporate Plan

A Corporate Plan for the years 2013 to 2017 had been prepared. However, the financial information of the preceding years, and financial values of physical goals expected to be achieved within 05 years had not been included therein.

5.3 Budgetary Control

The utilization of estimated expenditure under 03 Objects of the year under review had exceeded the estimated expenditure in the ranges of 5 per cent to 62 per cent. Even though the capital expenditure for the year under review had been estimated at Rs. 60 million, the actual expenditure amounted only to Rs. 44.4 million. 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.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. 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) Administration of research work