Rubber Research Board of Sri Lanka - 2014

The audit of financial statements of the Rubber Research Board of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Auditing 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 judgement, 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 2014 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

The following non-compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard No. 02

i. An increase in the fixed assets amounting to Rs. 6,674,288 not incurred by cash during the year under review, had been adjusted in the cash flow statement by considering it as a cash outflow.

ii. A sum of Rs. 6,728,580 paid during the year under review as employee gratuity , and a sum of Rs. 62,793 received from the sale of scrap materials , had not been taken into account in the preparation of cash flow statement.

iii. Although the other capital grants for the year under review amounted to Rs. 1,203,718 it had been shown in the cash flow statement as project receipts amounting to Rs. 568,838.

iv. A sum of Rs. 610,559 had been understated in adjusting the depreciation in the computation of cash flow generated from the operating activities in the cash flow statement. An equal amount of cash not generated actually by cash, had been included in the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard No. 07

i. Capital grants amounting to Rs. 4,226,966 received in the name of Rubber Land Productivity Improvement Project, had not been accounted as a capital grant, and this money had been spent on miscellaneous activities of several Departments of the Board. The total expenditure had been accounted as a fixed asset under lands and buildings without being correctly classified as revenue and capital.

ii. An asset should be depreciated on a systematical basis throughout its useful lifetime since it is made usable. However, the depreciation was based since the following year of purchase of assets by the board as a policy.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Provisions for depreciation amounting to Rs. 262,025 had not been made relating to the re-cultivation of tea and cinnamon in Kuruwita Estate

(b) Although a sum of Rs. 22,123,910 had been shown in the notes to accounts notes as gratuity provisions for employees of the Dartonfield and Kuruwita Estates, a sum of Rs. 6,480,043 of that had not been written off against the income. Provision for gratuity amounting to Rs. 548,100 had not been made in favour of 15 employees who had been receiving wages on daily basis from the Sub office in Polgahawela from 2006 up to the end of the year under review. However, a sum of Rs. 54,000 had been paid as gratuity to one of those employees who had retired during the year under review.

(c) Adjustments had not been made for over-provisions of audit fees amounting to Rs. 981,102 up to the year 2010.

(d) Stocks valued at Rs. 9,249,167 as at the end of the year under review had been accounted on book value without being verified.

(e) Adequate provisions had not been made for trade debtors of Rs. 2,546,298, and surety bond debtors of Rs. 1,286,279 that had been brought forward for a period of over 20 years, the recoverability of which was confirmed as doubtful. Additionally , even though the large number of loan balances had been remaining outstanding for a long period, an assessment had not been carried out on the adequacy of provisions made in that connection after the year 2007.

2.2.3 Lack of Evidence for Audit

The following evidence stated against each item of account, had not been presented to audit.

Item of Account	Value Rs.	Evidence not Presented
(a) Work in Progress	4,988,147	Particulars relating to the balances of confirmation and the constructions or productions of the Regional Office, Monaragala
(b) Contingency Expenses	1,482,102	Schedules including particulars of expenses
(c) Grants on Miscellaneous Projects	13,460,425	Particulars relating to agreements governing each grant, capital goods received as grants and their values, dates received, dates of starting amortization and completion of project, and rates of amortization.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Trade debtors of the Board

(i) Of the trade debtor balance amounting to Rs. 21,786,408 as at the end of the year under review, a sum of Rs. 16,717,728 representing 76.7 per cent with regard to 481 debtor accounts had remained outstanding for a period of more than 5 years. Of those debtor balances, a sum of Rs. 8,053,577 or 48.17 per cent relating to 193 debtor accounts had remained outstanding for a period of 10-20 years. Among them, a balance of Rs. 2,546,298 that had remained unrecovered for a period of more than 20 years.

(ii) According to the letters of confirmation of balances sent up to the preceding year to the debtors of more than 10 years, no replies had been received with regard to debtors aggregating Rs. 6,011,924, and a loan balance of Rs.1,305,161 had been confirmed to be zero. The Board did not possess documents relating to debtor balances amounting to Rs. 714,642.

(iii) Of 663 debtors as at the end of the year under review, letters of confirmation of balances had been sent to 90 representing 13.57 per cent. Of that, 13.33 per cent had confirmed the balances to be zero.

(b) Of the sundry debtor balance aggregating to Rs. 13,178,568 that had been brought forward for a period of more than 8 years, 16 balances totalling Rs. 1,618,112 brought forward for a period of more than 8 years , had not been confirmed as being recovered.

(c) Action had not been taken to recover sundry deposit balances of Rs. 242,122 brought forward for a period of more than 09 years and recoverable from 07 institutions.

(d) Action had not been taken even in the year under review to settle a sum of Rs. 5,214,500 given by the Board to the Department of Consultancy Services for constructing a building in 1985, and a sum of Rs. 712,426 recoverable from the Ministry of Plantations since 2010 for training of graduates.

(e) A sum of Rs. 458,030 relating to a period of 2-5 years and payable to 32 institutions ,and creditor balances amounting to Rs. 6,074,968 remained outstanding for a period of more than 5 years and payable to 156 institutions, had continuously been shown in the financial statements, but action had not been taken to settle those balances.

(f) Liabilities amounting to Rs. 298,577 that remained payable to Janatha Fertilizer Company since 2002, had not been settled even in the current year. It was also observed that the relevant bills too had not been in the possession of the institute.

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

The following instances of noncompliance were observed.

Reference to Laws, Rules and Regulations	Noncompliance
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(a) Financial Regulation 371(2)	Ad hoc sub imprests totalling Rs. 87,000 obtained by 08 officers , had been retained in hand for a period ranging from 01 week to 04 months , and the total amount had been re-deposited. Furthermore, ad hoc sub imprests totalling Rs. 12,590 obtained by 10 officers had been settled after a delay of more than a month. Ad hoc sub imprests totalling Rs. 218,490 granted to 17 officers had not been settled as at 31 December of the year under review.
(b) Financial Regulation 396 (d)	Action had not been taken in accordance with Financial Regulations on cheques exceeding 06 months valued at Rs. 166,426 issued but not presented to the bank for payments.

3. Financial Review

3.1 Financial Results

According to the financial statements presented , the operating result of the Board for the year under review had been a deficit of Rs.43,971,568 as compared with the deficit of Rs.84,950,295 for the preceding year thus showing an improvement of Rs. 40,978,727 in the financial result for the year under review. The decrease in the deficit had mainly been caused by the increase in Government grants by a sum of Rs. 57 million as compared with the preceding year, the decrease in supplies and expenditure of consumer goods by a sum of Rs. 6 million, and the decrease in other expenses by a sum of Rs. 22 million.

3.2 Analytical Financial Review

The following observations are made.

(a) The total income of the Board for the year under review, inclusive of grants received from the Treasury amounted to Rs. 264,142,479 ,which was an improvement of 28.35 per cent as compared with the total income of the preceding year amounting to Rs. 205,784,216.

(b) The total expenditure of the Board for the year under review amounted to Rs. 312,864,694 which was a decrease of 2.42 per cent as compared with the total expenditure of the preceding year amounting to Rs. 320,648,346.

(c) The overall profit of the Dartonfield and Kuruwita Estates for the year under review was Rs. 10,887,256. The decrease in the profit for the year under review was 72.72 per cent as compared with Rs. 39,908,882 for the preceding year. The overall loss of the Kumarawatta and Naramapola Estates amounted to Rs. 6,136,609 , and the decrease of the loss for the year under review was 38.61 per cent as the loss for the preceding year amounted to Rs. 9,997,046. In considering the overall profit earned from the 04 Estates in the year under review amounted to Rs.4,750,647 and that amounted to Rs.29,911,836 in the preceding year. As such, the decrease of profit for the year under review was 84.11 per cent. The decrease of the sale prices of rubber as compared with the preceding year, the unfavorable weather conditions, and the higher salaries of employees had mainly attributed the decrease in the profit.

3.3 Legal Cases Instituted By or Against the Board

The following legal cases had not been disclosed in the accounts.

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

(b) The Board had filed a case at the District Court, Mathugama claiming compensation of Rs. 730,000 against a person responsible for not being able to return the chassis of a lorry owned by the Board once it was taken away for repairs. The accused had been indicted by the court though, it had not been revealed in the financial statements.

4. Operating Review

4.1 Performance

The following observations are made on the production of latex of the Dartonfield and Kuruwita Estates with regard to the preceding year and the year under review.

(a) The production of latex per hectare of the Dartonfield Estate as compared with the Kuruwita Estate had decreased by 378 kilograms in the preceding year whereas, the decrease for the year under review was 44 kilograms per hectare. Reasons such as, the cultivation of the Kuruwita Estate were of research type, usage of shelters from rain, weather conditions, location, ease of maintenance owing to the small extent of land in the Kuruwita Estate, and the maturity of the cultivation had mainly caused the increase in the production of latex per hectare of the Kuruwita Estate as compared with the Dartonfield Estate.

(b) As compared with the preceding year, the production of latex per hectare of the Dartonfield Estate had decreased by 69 kilograms per hectare , whereas the production of latex per hectare of the Kuruwita Estate had also decreased by 2 kilograms per hectare during the year under review.

4.2 Management Inefficiencies

The following observations are made.

(a) Although it had been estimated that the loss incurred at the Dartonfield rubber factory, a part of which had been destroyed by a fire broken out in the month of January in the year under review, amounted to Rs. 4,279,695, and value of the stock of rubber destroyed amounted to Rs. 1,607,350, the insurance indemnity received amounted only to Rs. 702,517 due to failure in insuring the factory with its actual value being taken into account. Reports on the losses and damages had not been prepared in terms of Financial Regulation 102 even up to 31 March 2015 , and the damaged areas had not been repaired as well. A new officer had not been employed in place of the Factory Officer who had retired prior to the fire that broke out due to lack of supervision.

(b) A sum of Rs. 330,909 had to be paid to the Employee Provident Fund as surcharges during the year under review due to failure in paying contributions to the EPF on time in favor of 13 graduate trainees.

(c) A liability amounting to Rs. 4,050,175 had been committed due to failure in taking the allowances into account in addition to salaries when computing the pension's gratuity of 75 officers who had retired during the period from 2006 to 2011.

(d) Salaries and allowances had been paid from the income of the Estates to 65 labourers deployed in various places of the Rubber Research Board by considering them to be check roll labourers of the Dartonfield Estate. This had become a major factor causing the gradual decrease in the loss of the Estate.

(e) The internal control relating to the stores had been at a weaker level due to the fact that the same officer had been responsible for both purchasing of the Board ,and custodian of the stores.

4.3 Commencement of Projects on Lands not formally Vested

The ownership of the Kumarawatta and Narampola Estates had not been transferred even during the year under review. An hypothetical rental of Rs. 8,320,000 had been allocated on these 2 estates since 2006 up to the year under review.

4.4 Personnel Administration

The following observations are made.

(a) The approved cadre of the Board was 470 whereas, the actual cadre was 438. Eighteen approved number of posts of senior management relating to operational activities , 31 posts of tertiary level management, 56 posts of secondary level management , and 03 posts of primary level, had remained vacant. Nevertheless, there had been a surplus of lower grade employees. A surplus of 73 employees, including 56 Labourers, 12 Management Assistants , and 03 Drivers had existed.

(b) Although it is the mission of the Board to promote the rubber industry by providing the training and consultancy services for the cultivators, and the manufacturers of rubber items with the state-of-the-art technology , attention had not been adequately drawn on the research staff - the main mechanism of achieving the said mission. Recruitments had been made to the lower grades in large-scale, despite posts of Research Officer remained vacant. There had been a surplus of more than 50 per cent with regard to posts such as, Management Assistant, Driver, and Labourer, but 65 persons had been recruited newly during the year under review, despite the non-availability of even a single vacancy for the post of Labourer. Out of 189 posts approved with professional competence, 26 remained further vacant, and 4 posts of Research Divisional Head, 3 posts of Chief Research Officer, 12 posts of Senior Research Officer, and 14 posts of Research Officer had included therein.

5. Accountability and Good Governance

5.1 Budgetary Control

The utilization of estimated expenditure under personnel emoluments , and maintenance of vehicles during the year under review had exceeded the estimated expenditure by 4 per cent and 20 per cent. Even though the capital expenditure for the year under review had been estimated at Rs. 84 million, the actual expenditure amounted only to Rs. 35 million. Accordingly, the sum utilized from the estimated expenditure was only 58.3 per cent. 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) Stocks Control
(d) Accounting
(e) Administration of Research Work
(f) Purchases