

## **Sri Lanka Rubber Research Board - 2015**

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The audit of financial statements of the Sri Lanka Rubber Research Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 the Rubber Research Ordinance (Cap.439) as amended by the Rubber Research (Amendment) Act, No.11 of 1956. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

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

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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**

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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 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 powers to the Auditor General to determine the scope and 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Sri Lanka Rubber Research Board as at 31 December 2015 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 Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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**The following non-compliances were observed.**

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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Even though the assets and liabilities and income and expenditure should not be set off unless otherwise required or permitted by the Standards, the other Capital Grants receivable in the year under review amounting to Rs.12,826,235 and expenditure had been set off and net value amounting Rs.1,271,722 amounting to Rs.11,554,513 only had been shown in the financial statements.

##### **(b) Sri Lanka Public Sector Accounting Standard 02**

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- (i) The employees gratuity amounting to Rs.1,040,400 paid during the year had not been included in the cash flow statement.
- (ii) Even though provision totalling Rs.10,024,075 had been made for the Rubber Research Institute in respect of the year under review, that had been shown erroneously as Rs.5,203,205 in the cash flow statement. As such the cash flow from operating activities had been understated by a sum of Rs.4,820,870.

##### **(c) Sri Lanka Public Sector Accounting Standard 08**

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Even though employees had instituted 11 cases against the Institute as at 31 December 2015 claiming compensation amounting to Rs.2,433,157, the necessary provision or disclosure in that connection had not been made in the financial statements.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the expenditure on the Seedling Nursery of the Kumarawatta at Moneragala amounting to Rs.4,950,638 had been shown as the work-in-progress over a period exceeding three years, the expenditure had not been identified and brought to account.

- (b) The bad and doubtful debtors balance as at 31 December of the year under review amounting to Rs.830,937 had not been deducted from the debtors thus resulting in the overstatement of debtors by that amount.

### 2.2.3 Unreconciled Accounts

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The balances of 19 debtors totalling Rs.370,172 according to the Debtors Ledger of the Institute had been shown as zero according to the letters of confirmation of the debtors.

### 2.2.4 Lack of Evidence for Audit

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

Item of Account	Value	Evidence not made available
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	Rs.	
(a) Non-Current Assets	294,545,905	Register of Fixed Assets and the Board of Survey Reports
(b) Other Financial Assets	1,965,524	Annual Stock Verification Reports

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Even though Rs.6,248,386 out of the balances receivable totalling Rs.13,717,213 had been older than 7 years, action for recovery had not been taken even during the year under review.
- (b) Out of the trade debtors balances totalling Rs.21,460,210 as at 31 December of the year under review according to the ledger, Rs.14,469,876 or 64 per cent had exceeded 10 years while further balances amounting to Rs.4,636,295 or 27 per cent had been old between 5 years to 10 years. Action for recovery of those debtors balances had not been taken even during the year under review.
- (c) Out of the Sundry Debtors balances totalling Rs.8,713,223 as at the end of the year under review, a sum of Rs.2,863,000 had been the debtors balances older than 05 years.
- (d) Action had not been taken even up to 31 December of the year under review for the recovery of a sum of Rs.1,035,600 receivable by the Board from the National Science Foundation since the year 2011 and for the settlement of Rs.298,577 payable to the Janatha Fertiizer Company since the year 2002.
- (e) The balances totalling Rs.16,643,553 included in the Sundry Creditors balances, contained balances totalling to Rs.4,324,179 older than 10 years, balances totalling Rs.1,900,115 old between 5 to 10 years and balances totalling Rs.503,538 old between 2 to 5 years.

- (f) Action had not been taken for the settlement of a sum of Rs.5,214,500 shown under the balances receivable.

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

The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations, and Management Decisions</b>	<b>Non-compliance</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 102 and 103	Action in terms of the Financial Regulations had not been taken on the shortage of 29 items appearing in the Board of Survey Report of the stores as at the end of the year under review.
(ii) Financial Regulation 751	Even though goods received by the Government Institutions should be taken on charge in the Inventory Book at once, it had not been so done in connection with the assets totalling Rs.3,967,781 received from the projects.
(b) Trade, Tariff and Investment Policy Circular No.1/2010 of 10 December 2010.	Action had not been taken for the recovery from the officers responsible, the loss of Rs.8,090,574 caused to the Government on account of concessions of the Customs Duty and other duties on a motor vehicle imported under the motor vehicle permit issued to an Estates Superintendent recruited on contract basis.
(c) Public Enterprises Circular No.PED/12 of 02 June 2003 – Paragraph 9.12	Action had not been taken to obtain the approval of the General Treasury for the Medical Bills Reimbursement Programme implemented by the Institute.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial result of the year under review had been a deficit of Rs.36,662,486 as compared with the corresponding deficit of Rs.43,971,568 for the preceding year, thus indicating an improvement of Rs.7,309,082 in the financial result of the year under review, as compared with the preceding year. Even though the expenditure on salaries for the year under review had increased by Rs.80,346,675 as compared with the preceding year, the increase of the Government Grants by a sum of

Rs.89,796,800 had been the main reason for the above improvement in the financial results. An analysis of the financial results for the year under review and the 4 preceding years indicated that despite the financial surplus achieved in the year 2011, there were financial deficits from the year 2012 to the year under review. Nevertheless, in consideration of the employees remuneration and the depreciation on the non-current assets, despite the decrease of the contribution of the Board in the year 2012 as compared with the year 2011, thereafter it had gradually improved from the year 2013 to the year 2015.

### **3.2 Analytical Financial Review**

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Out of the four estates belonging to the Institute, three estates had incurred losses during the year under review and the overall profit of Rs.4,750,647 for the preceding year had deteriorated by 167 per cent and converted to a loss of Rs.3,199,674. The profit of the Kuruwita Estate for the preceding year amounting to Rs.6,963,763 for the preceding year had deteriorated by 143 per cent in the year under review and converted to a loss of Rs.3,028,327, and that had been the main impact on the overall loss.

Nevertheless, the Dartonfield Estate which achieved a profit in the preceding year had improved by 25 per cent in the year under review while the loss of Kumarawatta had decreased by 25 per cent.

## **4. Operating Review**

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### **4.1 Performance**

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The management, maintenance, encouragement and promotion of the scientific researches relating to the following fields are the major objectives of the Board.

- Settlement of all problems relating to rubber and rubber industry.
- Treatment and prevention of diseases such as fungus affecting the rubber cultivation/ seedling cultivation.
- Conversion/ utilization of rubber latex to suit the market.
- Utilization, marketing and removal of all production from the rubber and rubber cultivation.

### **4.2 Utilization of Funds**

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Out of the allocation of Rs.87.6 million made under the Capital provision, a sum of Rs.48.49 million or 55 per cent only had been utilized. The provision made for the repairs to the internal roads of the Dartonfield and Nivithigalakele Estates had not been utilized. Out of the sum of Rs.18.5 million allocated for the construction of buildings 30 per cent or Rs.5.48 million only had been utilized.

### **4.3 Management Activities**

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The following observations are made in connection with the overseas leave approved for an officer who joined the service as Assistant Rubber Chemist in August 2005.

- (a) Academic leave with full salary for 1 year and 10 months with effect from 25 October 2007 had been approved. Even though, she had reported for duty on 21 October 2009 on the expiry of leave approved, leave with no-pay for a job for 06 months with effect from 01 June 2011 had been approved before the completion of the period of compulsory service or without recovering the value of the bond in terms of the Section 4.4 of Chapter XV of the Establishments Code.
- (b) Subsequently, leave with pay and no-pay had been approved in two instances with effect from 20 February 2012 and the approved leave had expired in March 2016. Nevertheless, the officer had not reported for duty even by October 2016 and action in terms of Section 7.1 of Chapter V of the Establishments Code had not been taken.

**4.4 Staff Administration**  
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Instead of appointing permanent officers for the duties assigned to the Genetics and Plant Propagation Department and the Polymer Chemistry Department, two officers had been appointed to act in the posts for more than 4 years and Rs.723,528 had been paid in that connection.

**5. Accountability and Good Governance**  
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**5.1 Procurement and Contract Process**  
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The following non-compliances were observed.

- (a) The Institute had obtained a patent for designing a rubber tapping knife and the tenders for production of the knife had been awarded to the same private institution over and over again without following the procurement procedure. Contrary to the objectives of the Institute, the knives had been purchased at Rs.550 per knife by utilizing funds of the Department of Rubber Development and sold again at Rs.565 retaining a profit margin.
- (b) The contract for the construction of the Office building with car park had been awarded for Rs.9,950,719 without a decision of the Procurement Committee.

**5.2 Audit Committee**  
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Even though the Audit Committee should meet at least once in 3 months in terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, only 02 meetings had been held during the year under review.

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

**Areas of Systems and Controls**

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(a) Fixed Assets Control

(b) Procurement Process

**Observation**

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Failure to record assets in the registers at the time of purchase/receipt and ensure existence of assets through physical verification.

Failure to follow the Procurement Guidelines