

Thurusaviya Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Thurusaviya Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
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| <p>Out of receivable loan balances totalling Rs.851,045 brought forward from a period between 5 years and 16 years, societies relating to the loan balance of Rs.249,920 provided for purchase of floor scales are in inoperative condition and as such, action thereon had not been taken.</p> | <p>As arrangements are being made for informing the societies again in this connection and for the recovery of the maximum loan amount from the societies, necessary action will be taken in future</p> | <p>Action should be taken relating to loans unrecovered throughout a long period.</p> |

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
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| (a) Section 32.3 of the Thurusaviya Fund Act, No.23 of 2000 | Even though a period over 16 years had lapsed after the establishment of the Fund, the regulations in this Act had not been published in the Gazette and brought before Parliament for approval. | The regulations drafted by the Attorney General's Department had been received to the Fund. However, necessary documents were not available with the Fund to confirm whether they have been published in the Gazette by Parliament. As such, necessary information will be obtained from the Ministry of Plantation Industries and will be briefed in future. | Regulations should be published in the Gazette in terms of the Act and obtained approval of the Parliament. |
| (b) Paragraph 02 of Treasury Operations Circular No.1/2008 of 03 March 2008 | (i) Even though it is necessary to pursue a formal investment procedure that would have a better effect on the national economy, with regard to the performance of the funds with final responsibility and directness to the Government and from the institutions that are directly and indirectly funded by the Government, the balance ranging from Rs.0.4 million to | The balance of the bank account and the balance of the cash book almost always range between Rs.1½ million and Rs.2½ million. Non-clearance of cheques issued by the Institute among creditors had been the reason therefor. | Investments should be made effectively without remaining dormant in bank current accounts. |

Rs.6.9 million had been kept as dormant in the bank current account during the year under review.

- (ii) When the investments in state banks had matured, the investments should be reinvested in Treasury Bonds or bank deposits for a period of two years or more subject to the interest rate paid by the Central Bank of Sri Lanka and the Treasury for the medium – term investment, a short term investment amounting to Rs.6,193,862 of the Fund had been made for six months from 02 January 2017 in a state bank.
- It is expected to take necessary action for correction in future. In terms of provisions in circulars issued by the Treasury, monies should be invested effectively.

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a surplus of Rs.234,946 as against the deficit of Rs.439,483 for the preceding year, thus observing an improvement of Rs.674,429 in the financial result. The increase in other income had been the main reason for this improvement.

2.2 Analysis of Main Income Tendencies

In the comparison of other income of Rs.1,027,426 in the year under review with Rs.2,180,784 received in the preceding year, an increase of Rs.1,153,358 was observed and as compared with the preceding year, the difference was represented as a percentage of 52 per cent.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
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| ----- | ----- | ----- |
| (a) The objectives of the Fund are promoting of investments related to the rubber industry, acquisition, improvement or establishment of rubber processing units, rubber factories and other facilities for turning the yield of small rubber estates into products and promotion of sale of production of such rubber processing units or factories. However, action had not been taken to perform such activities. | The budget estimate required for implementation of expected development projects connected with the objectives of our Institute, is forwarded to the General Treasury through the Ministry of Plantation Industries. However, the financial provisions made annually by the General Treasury are not at all adequate for achieving the objectives of our Institute. Nevertheless, a few development projects are being implemented for uplifting the living standards of rubber smallholders by proper management of provisions made to us. Moreover, action has been taken to identify a few aspects required for achievement of objectives of our Institute and to hand over a few development projects to the Ministry already. As such, receipt of provisions for achievement of the objectives of our | Action should be taken to achieve objectives of the Fund. |

Institute and for development projects in rendering of an effective service to rubber smallholders is essential. Accordingly, the relevant parties had already been briefed in this regard and future affairs are expected to be carried out based on provisions made.

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| <p>(b) Out of the overpayment of salaries totalling Rs.320,110 made in the year 2002 to 05 officers, the sum of Rs.144,000 recovered in the year under review had not been remitted to the Treasury.</p> | <p>Action is taken to pay the total amount in this year along with the amounts of preceding years to the General Treasury through the Ministry.</p> | <p>As expenditure had been incurred by provisions made by the Treasury for payment of salaries, it should be credited to the Revenue.in the recovery of the said expenditure.</p> |
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3.2 Operating Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
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| ----- | ----- | ----- |
| <p>(a) The number of registered societies with the motive of uplifting the socio-economic standards of rubber smallholders in 14 Districts stood at 712 by 31 December 2018 while 329 of them were in inoperative condition. Action had not been taken even in the year under review to bring those inoperative societies to operative condition or to cancel their registration.</p> | <p>This assessment of inoperative societies had been carried out in December 2017. It has been planned to subject all Thurusaviya societies for classification according to the new system from the year 2019. As such, in future it is expected to carry out and complete a classification on all societies under a method of giving marks according to several criteria under several divisions identified, through this process.</p> | <p>Action should be taken to achieve the objectives of the Fund.</p> |

- (b) One hundred and thirty rural rubber forums and 31 group processing centres established under the Smallholder Plantations Entrepreneurship Development Programme in the District of Monaragala from the year 2011 to the year 2016 have been vested in the Fund by the Letter dated 01 March 2017 of the Secretary to the Ministry for effective implementation of the said forums and processing centres. However, activities of registration under Thurusaviya societies so as to implement those forums and processing centres effectively, had not been carried out.
- In terms of the Thurusaviya Fund Act, there is no possibility of vesting rural rubber forums all at once to the Thurusaviya Fund. Firstly, all the said forums should be methodically registered as “Thurusaviya Societies” therefor. Accordingly, the basic activities thereof are in progress. Moreover, Coordinating Officers of the Thurusaviya Fund carries out supervision of group processing centres as well.
- It is further inform that this purpose could not be expedited due to the following practical issues.
- Only one officer of the Thurusaviya Fund has been attached for duties for coordination of Thurusaviya societies established so as to cover 29 Divisions of the 3 Districts of Monaragala, Badulla and Ampara and in addition to that, the said officer had been engaged in purposes of conducting programmes of the STARR Project in collaboration with the Rubber Development Department and the Rubber Research Institute.
- A period over 02 years had lapsed from 01 March 2017 to the date of the Audit report. As such, vesting activities should not be further delayed.

3.3 Idle or Underutilized Property, Plant and Equipment

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
|---|--|---|
| (a) Out of 03 group processing centres constructed for processing of rubber sheets by spending a sum of Rs.3,492,301 from the year 2005 to the year 2012, one centre has been inoperative over a period of 03 years and constructions of the other 02 have not been completed. As such, those processing centres could not be utilized effectively. | 1. Hedigalla Group Processing Centre A request had been made by Mr.H.D.Nimal, residing at No.10, Dehigahawela, Bombuwala for commencement of the manufacturing process. Accordingly, future action will be taken on the decision taken by submitting this request to the Board of Directors of the Thurusaviya Fund. | Assets should be made use of effectively. |

2. Ganepalla Group Processing Centre

Constructions of this group processing centre have been commenced in the year 2008. In the commencement of constructions of this group processing centre in the year 2008, the residents of the area had made a protest based on an issue relating to environment pollution. As such, constructions had to be discontinued halfway. Moreover, as rubber cultivators of the area too have turned to other cultivations, the Thurusaviya Society as well is inoperative.

3. Erapola Eksath Group Processing Centre

The constructions of this group processing centre as well have been discontinued halfway. Rubber smallholders had withdrawn from rubber cultivation due to fall in price of rubber and as such, the society is inoperative at present.

It is informed that necessary steps will be taken relating to the operation of these two group processing centres in future after holding discussions with rubber smallholders who are engaged in rubber cultivation in this area at present and obtaining approval from the Board of Management of the Thurusaviya Fund.