

Thurusaviya Fund – 2019

1.1 Qualified Opinion

The audit of the financial statements of the of Thurusaviya Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Section 21(2) of the Thurusaviya Fund Act, No. 23 of 2000, and provisions of the National Audit Act No. 19 of 2018 & Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in 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 2019, and of 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 (SLAuS). 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 determine 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 intends 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 skepticism 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 auditor's 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 auditor's 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 Financial Statements

1.5.1 Non-compliances with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) Computers, office equipment, office furniture, and machinery costing Rs. 1,676,060 were still in use despite being fully depreciated, but action had not been taken in terms of Section 92 of Standard, 07 to include in the financial statements after being revalued by considering the useful life.	Proper action will be taken in due course by obtaining a valuation report from the Government Valuation Department.	Considering the useful life of assets fully depreciated, action should be taken that such assets be revalued in accordance with Sri Lanka Public Sector Accounting Standards, and shown in the financial statements.
(b) Disclosures had not been made in accordance with Section 23 of Standard, 01 relating to the case filed by 05 employees of the Fund before the Labor Tribunal involving a labor dispute.	Will be disclosed in the financial statements of the ensuing year.	The necessary disclosures should be made in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendations
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(a) A sum equivalent to the value of fixed assets worth Rs. 2,057,587 purchased through the capital grants of the year under review, had been adjusted to the statement of financial performance instead of being adjusted to the Thurusaviya Fund.	Corrective measures will be taken in due course.	An equity equivalent to the assets purchased from the capital grants, should be made.
(b) The interest on fixed deposits relating to the year under review amounted to Rs. 748,538, but that value had been brought to accounts as Rs. 1,025,576. As such, the interest income had been overstated by Rs. 277,038 in the accounts.	Corrective measures will be taken in due course.	Only the interest relating to the year should be credited to the income.
(c) The gratuity of the year under review that had been adjusted to the statement of financial performance, should have been adjusted to the cash flow statement under the non-financial adjustments, but the balance after deducting the gratuity paid in the year under review from that value, had been shown under working capital adjustments in the cash flow statement. Moreover, the depreciation of the year under review had been shown under working capital adjustments instead of being shown under the non-financial adjustments.	Corrective measures will be taken in due course.	The cash flow statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standard, 02.

1.5.3 Accounts Receivable

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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(a) The receivable loan balance totaling Rs. 826,110 being brought forward over a period of 5-17 years, could not be recovered.	As for the recovery of loans granted by the Thurusaviya Fund to the associations for purchasing platform scales, letters of demand had been sent to such associations in view of taking legal action. Otherwise, action will be taken to bring those platform scales back to the Thurusaviya Fund.	Measures should be taken for the recovery of loans.
(b) Of the loan amounting to Rs. 1,000,000 given in the year 2019 to 02 Thuruaviya associations for purchasing rubber sheets on the basis of recovering in 06 months, no installment whatsoever had been recovered even by the end of the year under review.	Final reminders in that regard had been sent to the Thurusaviya associations in Egaloya and Karavita Janapadaya through letters, and they were informed via telephone as well. They were informed that action be taken to settle the loan within the ensuing week.	Loans should be granted by accepting sureties.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
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(a) Regulation 1646 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Daily running charts, along with original copies of monthly summaries recorded in Form General 268(a), should be furnished to the Auditor General prior to the 15 th day of the ensuing month. However, it had not been so done.	Corrective measures will be taken in due course.	Compliance with the existing Laws, and Regulations is necessary.
(b) Section 32(3) of the Thurusaviya Fund Act, No. 23 of 2000.	Even after a period of 20 years since the establishment of the Fund, the Directives formulated	The then management had stated that the documents relating to publishing the Rules	The Directives should be published in the Gazette as per the

in terms of Section 14(2)(O) had not been published in the Gazette, and approval of Parliament had not been obtained thereon.

in the Gazette, had been sent to Parliament through the Ministry. Nevertheless, the progress thereof is being identified at present.

Act, and parliamentary approval should be obtained thereon.

- (c) Treasury Operations Circular, No. 1/2008 dated 03 March 2008.
- Once the investments made in the state banks reach maturity, the reinvestment should be done in the bank deposits or Treasury bonds for periods of two or more years subject to the rate of interest paid by the Central Bank of Sri Lanka and the Treasury for midterm investments. However, since the inception, a sum of Rs. 8,512,831 had been invested by the Fund in short term deposits for a period of 06 months.
- The said fixed deposit is maintained by the Fund so as to be used for paying gratuity to the employees. Oftentimes, the interest rate of fixed deposits is higher than the Treasury bonds. As such, investments were made in fixed deposits thus minimizing the loss.
- Instead of being invested in short term bank deposits, funds should be productively be invested in bank deposits with maturity periods of 02 or more years in accordance with provisions of Circulars issued by the Treasury.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 2,469,974 as compared with the corresponding surplus of Rs. 234,947 in the preceding year, thus indicating an improvement of Rs. 2,235,027 in the financial result. The fact that a sum equivalent to the fixed assets worth Rs. 2,057,587 purchased from the capital grants of the year under review, had been credited to the income, was mainly attributable to the said improvement in the financial result.

2.2 Analysis on the Trends in Income

The Government grants amounted to Rs. 46,561,250 whilst the grants for the other projects amounted to Rs. 14,419,669 in the year under review. Comparing that with the capital grants and the grants received for other projects in the preceding year totaling Rs. 31,762,045, an increase of Rs. 29,218,876 was indicated representing 92 per cent.

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(a)	Grading of 712 Thurusaviya associations registered in 14 districts with a view to promoting the social-economic status of the smallholder rubber farmers, had not been completed even by the end of the year under review.	The district coordinating officers of Thurusaviya have been apprised in that connection on several occasions. It is informed that relevant process will be completed expeditiously.	Grading of associations should be done promptly, thus fulfilling the objectives of establishing the associations.
(b)	In view of ensuring productive functionality, the Secretary to the Ministry had given approval to take action for taking over 130 rural rubber coteries and 31 bulk processing centers established in Monaragala district during 2011 – 2016 under the Smallholder Plantations Entrepreneurship Development Programme. However, action had not been taken to take over 77 coteries and 06 processing centers.	According to the Thurusaviya Fund Act, all of the said rural rubber coteries can not be taken over by the Thurusaviya Fund at once. All the coteries should first be registered as Thurusaviya associations. Accordingly, 53 of the 130 rural rubber coteries, along with 25 of the 31 bulk rubber processing centers have already been registered with the Thurusaviya Fund.	As a period of over 03 years has elapsed from 01 March 2017 to 31 December of the year under review, the process of taking over should not be further delayed.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
An expenditure of Rs. 3,492,301 had been spent during 2005-2012 on 03 centers for processing rubber sheets in bulk. However, 02 of those centers had not been fully constructed whilst the other building had not been made use of.	The production process of the bulk processing center constructed at Hedigalla colony in Kalutara district, had come to a halt. Although the construction works of the bulk processing center in Ganepalla, Kegalle had been commenced, the constructions had to be abandoned halfway due to a protest raised in regard of environmental pollution. The constructions of the bulk processing center at Erambepola in Ratnapura district, had been halted halfway.	Assets should be utilized productively.