

Sri Lanka Rubber Research Board - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Rubber Research Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, 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 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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 Board.

1.4 Audit Scope

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 Company'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 Company'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 Company 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>In terms of Section 15 of the Sri Lanka Public Sector Accounting Standard 09, value of the closing stocks should be measured at the cost or net realizable value, whichever is less and state in the financial statements. Nevertheless, without being considered the net realizable value, stock had been shown at the book value of Rs.7,316,611 in the financial statements.</p>	<p>Action will be taken in 2021 to show the stock value in financial statements in accordance with the standard.</p>	<p>As referred to standard, inventory should be measured at the lower of cost or net realized value and should be stated in financial statements.</p>

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>Although Rs. 4,237,430 had been shown in the financial statements as nominal value of 431.78 hectares of lands of the</p>	<p>The Board has requested the Government Valuation Department on 07 September 2018 to conduct a re-census of land and buildings. They also met and discussed</p>	<p>The value of the lands should be re-evaluated and the fair value thereof should be stated in the financial statements..</p>

Board, those lands had not been revalued and fair value thereof had not been included in the financial statements.

about this and were unable to accomplish that task. Re-bidding will be done through a qualified appraiser who will re-evaluate the land and buildings and show them in the financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 4: 7 of Chapter XV of Establishment Code of the Democratic Socialist Republic of Sri Lanka	Balances totalling Rs.3,509,706 recoverable to the Board over a period from 03 years to 29 years from 04 officers who had breached conditions of the bonds entered into for proceeding aboard on full pay leave to pursue studies had not been recovered from the respective scholarship holders.	Three of these officers have been referred to the Attorney General's Department for legal action regarding the recovery of money owed to the institution, but these cases have been dropped due to the inability to find the addresses. Accordingly, it has not been possible to take further action in this regard. Corrections will be made in the year 2021 as information has been found that the payment was made on 04th October 2007 from one officer.	Action should be taken to recover the amount from the officers who had violated the bond conditions abroad in accordance with the provisions of the Establishments Code.
(b) Asset Management Circular of the Secretary to the Treasury No. 01/2018 dated 19th March 2018	Even though a period of 01 to 07 years had elapsed from removal of using 07 vehicles of estimated value as Rs.4,900,000 and older than 39and 30 years no action had been taken to dispose the vehicles.	Seven old vehicles of the company have been identified for removal the disposal of those vehicles began in early 2021 in accordance with Treasury Asset Management Circular No. 1/2018, but the disposal was delayed due to the Covid epidemic. However, the work will be completed	Vehicles should be disposed of immediately in accordance with the provisions of the Circular.

as soon as possible and action will be taken to dispose of the vehicles.

2. Financial Review

2.1 Financial Result

The operations of the Board for the year under review had resulted in a surplus of Rs.10,858,981 as compared with the corresponding deficit of Rs. 53,790,676 for the preceding year, thus observing a increase in Rs.64,649,657. This increase was mainly due to increase in the Government grants and decrease expenditure.

2.2 Trend analysis of the main Income and Expenditure Items

2.2.1 Income

- Total income of the Board including the grants received from the Treasury amounted to Rs.662,812,891 during the year under review and it was decrease of 0.61 percent as compared with the total income of Rs.666,913,740 for the preceding year. Compared to the preceding year, the gross profit and other income of the estates had increased by Rs. 28,066,652 or 42.02 percent other than Government Grants.
- Of four estates owned by the Board, three estates had incurred losses during the year under review and only one estate had made a profit. The loss of the Kumarawatte Estate which was Rs. 4,876,303 previous year had increased to Rs.7,495,284 during the year under review, The losses of Rs.8,811,453 of Dartonfield Estate in the preceding year had been decreased to Rs.615,573 during the year under review, The loss of Rs.33,678 of Narampola Estate in previous year previous year had increased to Rs.1,248,954 during the year under review.

2.2.2 Expenditure

Total expenditure of the Board during the year under review amounted to Rs. 651,953,909 and it was decrease in 9.5 percent as compared with the total expenditure of Rs. 720,704,416 in the preceding year.

2.3 Ratio Analysis

Items	Value of the year under review	Value of the preceding year	Difference with the preceding year	Percentage of the difference with the preceding year
	Rs.	Rs.	Rs.	%
Non - current Assets	684,634,797	658,988,975	25,645,822	3.89
Current Assets	186,048,139	167,780,816	18,267,323	10.88
Current Liabilities	61,106,509	97,756,040	(36,649,531)	(37.49)
Non -Current Liabilities	151,253,846	143,314,133	7,939,713	5.54
Equity(Capital &Reserves)	658,322,581	585,699,618	72,622,963	12.39

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though two office buildings had been constructed at a cost of Rs.16,301,964 on the lands of Kumarawatta Estate Monaragala and Narampola Estate Polgahawela those lands had not been legally acquired by the Board.	All necessary arrangements have been made for the acquisition of Kumarawatta Estate Monaragala and Narampola Estate Polgahawela and forwarded to the Ministry on 01 January 2018. Relevant information has been submitted to the Ministry of Land and Parliamentary Reforms on 28th November 2018 for the relevant acquisition process by the Ministry.	Land should be acquired immediately.
(b) The total value of the Rs.5,883,524 more than 5 years in 19 debtor balance had been cut off without the approval of the Board of Directors. Regarding this cutting had not been made in the financial statement.	Arrangements have been made to settle balances which cannot be identified as debtors contained in the Debt Clearance Account.	The reasons for non-recovery of debtors must be submitted to the Board of Directors for approval before being cut off.

3.2 Operational Inefficiencies

Audit Issue

The Board had planned 07 special projects to be implemented during the period 2016-2022 and provided Rs.199.95 million for this purpose. An amount of Rs.54.65 million had been allocated for the year under review to implement those projects and according to the performance report, the performance of three projects which had been allocated Rs.5.63 million had not been submitted.

Management Comment

Performance reports related to special projects had been prepared in due course and submitted to the Ministry.

Recommendation

Performance of planned projects by the Board should be presented in report.

3.3 Human Resources Management

Audit Issue

There are 43 vacancies related to research activities such as 10 posts of Chief Research Officer, 16 posts of Senior Research Officer, 10 posts of Research Officer, 02 posts of Senior Advisers, 02 posts of Advisers and 03 posts of Research Officers. It still existed until 30 October 2021. As a result, it was an impediment to the institute's main objective of conducting research.

Management Comment

Applications have been called for this post in the year 2021 and the necessary steps are being taken to fill the vacancies. However, due to the order issued by the government to suspend the recruitments, the relevant recruitments have not been made yet.

Recommendation

Steps should be taken to fill these vacancies or to reconsider the service requirement and revise the approved number of employees.