

## Rubber Research Board of Sri Lanka - 2010

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### 1. Financial Statements

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#### 1.1 Opinion

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So far as appears from my examination and to the best of information according to the explanations given to me, I am of opinion that the Rubber Research Board of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effect on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with The Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Rubber Research Board of Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### 1:2 Comments on Financial Statements

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##### 1:2:1 Presentation of Financial Statements

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Even though the annual financial statements should be presented for audit within 60 days after the closure of the financial year in terms of the Public Enterprises Circular No. PED12 dated 02 June 2003, the accounts had been presented on 20 May 2010 with the delay of 79 days.

### 1.2.2 Sri Lanka Accounting Standards

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The following observations are made.

- (a) The balance of the long term liabilities valued at Rs. 7,737,055 not to be included in the statement of changes in equity in terms of Sri Lanka Accounting Standards No. 03 had been included in the statement and the policy changes for provision of gratuity for the year under review had not been disclosed as notes to the financial statements.
- (b) Cash flows valued at Rs. 11,656,719 had not been correctly adjusted in the preparation of cash flow statement in terms of Sri Lanka Accounting Standards No. 09.
- (c) Although four surety bond debts that remained for exceeding 15 years amounting to Rs.4,907,787, for which the recovery was doubtful, should be shown by notes in the balance sheet as contingent assets in terms of Sri Lanka Accounting Standards No.36, it had been brought to account as debtors.
- (d) A sum of Rs. 38,097,777 had been adjusted as prior year adjustments contrary to Sri Lanka Accounting Standards No.10.

### 1:2:3 Accounting Deficiencies

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The following observations were made.

- (a) Instead of conducting the annual Board of Survey, the book value of Rs.11,337,538 had been brought to the accounts. As such, the losses due to damages, losses etc., had not been disclosed in the accounts.

- (b) The profit for the year under review and the closing stocks had been understated by Rs. 605,340 due to not disclosing the balance stock of 1121 latex knives valued at Rs. 605,340 as at the end of the year under review.
- (c) Provision for gratuity for the year 2010 had been overstated by Rs. 3,491,168 due to the computation error.

1:2:4 Accounts Receivable and Payable

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The following observations are made.

- (a) The balances valued at Rs. 6,468,898 receivable from 317 debtors and 18 receivable balances valued at Rs. 2,348,490 had existed for more than 5 years and evidence not submitted to ensure that those balances are being recovered.
- (b) Advances amounting to Rs. 5,214,500 granted for construction of a building in a premises belonging to the Land Reform Commission had been shown in the financial statements as a receivable balance for a long period.
- (c) Balances amounting to Rs. 4,150,725 payable to 116 creditors and 14 payable balances amounting to Rs. 1,586,666 had existed for more than 05 years and action had not been taken during the year under review.

1:2:5 Lack of Evidence for Audit

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Register of Fixed Assets, detailed schedules, confirmation of balances, etc. relating to fixed assets valued at Rs. 288,865,434, current assets amounting to Rs. 23,112,737 and current liabilities amounting to Rs. 4,150,725 had not been submitted.

1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non compliances with laws, rules, regulations etc., were observed.

Reference to Laws, Rules,  
Regulations etc.

Non-compliance

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(a) Financial Regulations of the  
Democratic Socialist Republic of  
Sri Lanka (F.R)

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(i) F.R. 104(3), (4) and 110

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Preliminary report and full report in respect of 05 vehicle accidents amounting to Rs. 335,817 occurred during the year 2010 had not been submitted to the Auditor General and the vehicle accidents had not been recorded in a register of damages.

(ii) F.R. 756

The Boards of Survey had not been conducted and the verification reports had not been submitted to the Auditor General.

(b) Public Enterprises Circular No.  
PED 12 dated 02 June 2003

(i) Paragraph 4.2.5

Age analysis relating to debtors, creditors and stocks and particulars of slow moving and obsolete goods had not been submitted monthly to the Board of Management in order to assist for the effective working capital management.

(ii) Paragraph 6.5.1

A draft annual report had not been submitted to the Auditor General along with the financial statements.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

(a) The operations of the Board during the year under review before taking into account the Government grant for recurrent expenditure had resulted in a deficit of Rs.231,582,450 as compared with the corresponding deficit of Rs.216,352,688 for the preceding year thus indicating an increase in the deficit of the year under review by Rs.15,229,762. The deficit of the year under review had decreased to Rs.50,532,450 after taking into account the Government grant for recurrent expenditure amounting to Rs.181,050,000 as compared with the deficit of

the preceding year of Rs.40,050,679 after taking into account the Government grant for recurrent expenditure amounting to Rs.176,300,000.

- (b) After taking into account the Government grant received for the year under review, the increase in the deficit of the year under review amounted to Rs. 10,481,771 as compared with the preceding year. However, Dartonfield and Kuruvita Estates of the Board had earned profits for the year under review as well as the previous year and the profits earned amounted to Rs. 50,497,431 and Rs. 24,364,387 respectively. Kumarawatta and Narampola Estates had sustained losses amounting to Rs. 1,228,287 and Rs. 2,916,518 for the year under review and the previous year respectively.

Accordingly, the entire operations for the year had resulted a surplus of Rs. 20,184,562 after making adjustments for the overall profit of the above four Estates amounting to Rs. 70,717,013 as compared with the overall deficit of Rs. 22,920,078 for the preceding year after making adjustments for the overall profit of the above four Estates for the preceding year amounting to Rs. 17,130,601.

#### 2:1:2 Transactions of Contentious Nature

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Although LP gas should have been provided only for the officers residing at the official quarters belongs to the Board in terms of the decision of the Board of Directors of the 218<sup>th</sup> meeting held on 17 March 1987, contrary to this, LP gas valued at Rs. 40,612 had been provided for 13 officers who were not resided at the official quarters.

## 2.2 Operating Review

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### 2.2.1 Performance

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The following observations are made.

- (a) Revenue on sale of crop amounting to Rs. 2,642,905 had been obtained under the crop diversification relating to the Kuruwita, Dartonfield, Narampola and Kumarawatta Estate and a sum of Rs. 1,767,325 had been spent thereon.

(b) Performance of the Production of Latex

Particulars relating to the production of latex of the Kuruwita Estates and Dartonfield Estates are given below.

Yielding Estates	Extent of Land of the Rubber Cultivation	Production per hectare	2009		2010		Difference		
			Total volume of production for the year	Value of the Production	Total volume of production for the year	Value of the Production	Volume	Value (Decrease)	
		Kg.	Kg.	Rs.	Kg.	Kg.	Rs.	Kg.	RS.
Dartofield	193.04 (Hectare)	977	188,569	29,407,503	968	186,796	79,924,404	(1,773)	50,516,901
Kuruwita Estate	68.79 (Hectare)	1214.58	83,551	10,686,173	1,480	101,836	37,280,123	18,285	26,593,950



The following observations are made relating to the above particulars.

- (i) The production of latex per hectare of the Dartonfield Estate as compared to the Kuruwita Estate had declined by 237 kg. and 512 kg. for the year 2009 and 2010 respectively. The reasons such as the crops of the Kuruwita Estate were the research crops, utilization of rain cover, weather condition, location, convenience for maintenance as the extent of land of the Kuruwita Estate was less, had mainly effected for the increase of latex production per hectare of the Kuruwita Estate as compared with the Dartonfield Estate.
- (ii) The production of latex per hectare of the Dartonfield Estate for the year under review had declined by 9 kg. as compared with year 2009.
- (iii) Production of latex of the Kuruwita Estate per hectare had declined up to 1615kg., 1422 kg., and 1214 kg., for the years 2007, 2008, and 2009 respectively. The production had increased again by 266 kg. for the year 2010.
- (iv) The value of production of latex of the Dartonfield Estate and the Kuruwita Estate for the year 2010 as compared with the year 2009 had increased by Rs. 50,516,902 and Rs. 26,593,950 due to increase of average selling price of the crap and sheet rubber of 1 kg. by 87% and increase of the price of the raw rubber of 1 kg. by 88%.

(c) The progress of the completion as at the end of the year 2010 relating to the following 97 Research Projects commenced by the Board 10 years ago are given below.

Department -----	Total Units of Projects -----	Progress -----										
		5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	More than 50%
(1) Genetic and plant Breeding	06	-	-	-	-	-	01	03	02	-	-	-
(2) Plant Science	32	-	-	-	-	-	-	01	01	02	08	20
(3) Soils and Plant Nutrition	35	02	01	-	-	-	-	-	-	-	-	32
(4) Plant Pathology	08	-	-	-	-	01	-	-	02	-	02	03
(5) Biochemistry	08	-	-	-	-	-	-	-	-	-	-	08
(6) Biometry	05	Fully completed										
(7) Adaptive Research Division	03	-	-	-	-	-	-	-	-	-	-	03
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	97											
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The following matters were observed relating to the above projects.

- (i) The progress of completion as at the end of the year 2010 of the Projects No. 25 and 34 commenced 10 years ago by the Soil and Plant Nutrition Department was at a lower level of 5% . Non availability of adequate staff was the reason for decrease of progress. The progress of completion as at the end of the year 2010 of the Projects No. 16 commenced by this Department was at a lower level of 10% and non availability of necessary data for tests was the reason for this.
- (ii) The progress of completion as at the end of the year 2010 of the Projects No. 06 commenced 10 years ago by the Plant Pathology Department was at the level of 25% and the non availability of adequate research officers and equipment was the reason for the lower level of progress.

#### 2.2.2 Management Inefficiencies

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The following observations are made.

- (a) Internal control relating to stores control was at a weak level due to carrying out the duty of purchasing and stores responsibility of the Board by a same officer.
- (b) Sums of Rs. 14,751,127 and Rs. 90,000 had been spent for construction of buildings of the Alawwa, Narampola Estate and the Moneragala, Kumarawatta Estate and for survey activities respectively without vesting of the ownership of the land.
- (c) A sum of Rs. 5.2 million had been provided in the accounts as at 31 December 2010 for the annual lease rentals at rates of Rs. 640,000 and Rs. 400,000 on the basis of transferring the ownership of the Narampola Estate and the Moneragala, Estate to the Janatha Estate Development Board without a written agreement.

### 2.2.3 Idle and Underutilized Assets

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Even though there were 87 official quarters for the staff of the Board, out of these, 17 quarters had remained unoccupied.

### 2.2.4 Corporate Plan

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A Corporate Plan for the period 2010 - 2014 had been prepared. The financial information for the previous years had not been included in the Corporate Plan in order to compare with the forecast of the ensuing years. The financial values relating to the physical targets expected to be achieved within the five year period had not been submitted separately.

### 2.2.5 Budgetary Control

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The budget had not been made use of as an effective instrument of management control as there were significant variances ranging from 9 per cent to 78 per cent between the budgeted expenditure and the actual expenditure in budget prepared by the Board for the year under review.

## 3. 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 Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budget
- (c) Control of Assets
- (d) Stocks
- (e) Debtors and Creditors Control
- (f) Research Activities
- (g) Purchasing