

## **Sri Lanka Rubber Research Board – 2017**

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The audit of financial statements of the Sri Lanka Rubber Research Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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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The 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 Institute’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 Institute’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 the 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 2017 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 02**

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- (i) Even though Depreciation and provision for gratuity had been adjusted to Statement of Financial Performance in the year under review as Rs.27, 361,048 and Rs.30, 670,025 respectively, depreciation of Rs. 30,550,952 and provision for gratuity of Rs. 12,769,448 had been adjusted in the Cash flow statement in adjusting for non-cash transactions to the deficit for the year.
- (ii) Though the Other donations received to the Board Rs. 21,240,306 had been accounted as other income, in the Statement of financial performance for the year, had been shown as cash inflow under financial activities in the cash flow statement.
- (iii) According to the cash flow statement presented, changes in working capital should be totaled to Rs. 62,343,677; it had been shown as Rs. 61,948,791 due to errors in addition.
- (iv) Though the purchases of non-current assets were Rs.63,361,895 in year the 2017; investment activities had been overstated by Rs. 3,189,905 since the purchase of property, plant and equipment was recorded as Rs. 66,551,800 in the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard 09

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As per section 15 in the standard, even though inventories should be valued to lower of cost and net realizable value, inventory in warehouse had been valued at its average cost of Rs.18,328,099 included with outdated inventories and inventories not in use totalled to Rs.923,253.

**2.2.2 Accounting policies**

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The following observations are made.

- (a) According to the accounting policy of the Board in accounting for Capital Grants, though it is stated that the government grants are identified to income on a systematic basis as per the useful life of assets which are purchased under capital grants, actions had not been taken as stated since last few years for Capital grants totalled to Rs. 178,764,842 which had been received from treasury and other institutes for different projects.
- (b) As per paragraph 69 in Sri Lanka Public Sector Accounting Standard 07, though it is required to start depreciate an asset when it is ready to use, in contrary to that an accounting policy had been formed not to depreciate non-current assets in the year of purchase.
- (c) Though the cost of Rs. 10,504,650 on development of internal ways of the board had been recorded under non-current assets as at 31 December 2017, a depreciation policy had not been formed on those assets.

**2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) A depreciation totalling to Rs. 246,911 calculated on two account balances of tea and cinnamon re-plantation as at 31 December 2017 had not been taken to Statement of Financial performance.
- (b) The retentions totalling to Rs.654, 736 for the work done on renovation of internal ways and building construction had not been brought to account in the year 2017.
- (c) An advance payment of Rs. 580,803 which had been deducted in paying to a contractor had not been deducted from the relevant ledger account thus resulting in the overstatement of advance balance and understatement of balance in construction account by that amount.
- (d) An advance payment and first bill amount totalling Rs. 6,506,218 relating to 2 constructions in the year under review had been brought to building account instead of work-in-progress account.

- (e) A balance of Rs.63,168 in supply advance account which had not been shown as a closing balance as at 31 December in the previous year, had been marked as an opening balance in the year under review and taken to the financial statements.
- (f) Fixed assets bought for Rs. 5,570,499 from grants received in the year 2017 to project “Million 60”, had been cut off as an expense in the year under review instead of brought in to account as fixed assets.
- (g) A stock not supplied totalling to Rs. 20,565,039 as at 31 December 2017 had been shown as a current asset and a current liability in the financial statements.

#### 2.2.4 Unexplained differences

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Though the balances of 21 debtors totalling Rs.908, 295 as at 31 December 2017, it had been shown as zero balance according to the letters of confirmation.

#### 2.2.5 Lack of Evidence for Audit

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

Item of Account -----	Value ----- Rs	Evidence not made available -----
(a) Debtors -----		
Normal debtors	2,664,769	} confirmation letters of balances
Debtors	2,823,950	
Debtors settlement account	23,523,953	
Total	29,012,672	
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(b) Creditors	20,359,279	

#### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Actions had not been taken to recover a balance of Rs.17,336,616 over 5 years out of the balance of Rs.23,523,954 in the settlement account of debtors which had been included in other current assets as at 31 December of the year under review.
- (b) Actions had not been taken to settle inactive sundry creditors for a period over 5 years to 10 years totalling to Rs.7, 377,774.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Chapter XV in Establishment Code of the Democratic Socialist Republic of Sri Lanka	Actions had not been taken to recover balances due to the board from period of 2 years to 27 years totaling to Rs.6,634,929 from 5 officers those who had defaulted the conditions in the bond when overseas for educational purposes.
(b) Treasury Circulars	
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(i) Circular No.842 of 19 December 1978	The register of fixed assets had not been maintained.
(ii) IAI Circular No.2002/02 of 28 November 2002	A fixed asset register for computer accessories and software had not been maintained.
(iii) National Library and Documentation Services Board Circular No 2004/PS/01 of 26 January 2004	Board of survey for the year 2017 had not been done for library books.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the financial result of the Board for the year under review had been a deficit of Rs.45,382,393 as compared with the corresponding deficit of Rs.20,718,304 for the preceding year, thus indicating a deterioration of Rs.24,664,089 in the financial result of the year under review, as compared with the preceding year. The other expenditure for the year under review had increased by Rs.48,935,913 as compared with the preceding year had been the main reason for the above deterioration in the financial results.

In analysing the financial results for the year under review and the preceding 4 years, the deficit with fluctuations for the year under review was Rs. 45,382,393 which had been Rs.84,950,295 in the year 2013. Nevertheless, in re-adjusting the employees remuneration and the depreciation on the non-current assets to the financial result, though the contribution of the board in the year 2013 was Rs.180,081,608 which had been gradually improved till the year 2015, the contribution had decreased from the preceding year and it was Rs. 313,961,232 in the year under review.

### **3.2 Analytical Financial Review**

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Out of the four estates belonging to the board, two estates had incurred losses and two estates had incurred profits during the year under review. Though the loss from the four estates in the preceding year was Rs.3,078,555, a profit of Rs.9,929,952 of the year under review such that an improvement in profit by 423 per cent. The loss of the Dartenfield estate was Rs.2,018,705 for the preceding year, which had been improved by 659 per cent in the year under review and converted to a profit of Rs.11,279,962 and that had been the main impact on the overall profit.

### **3.3 Legal actions instituted against the institute**

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The workers had filed 4 cases against the board as at 31 December 2017 and a fee of Rs.1,762,624 had been spent as legal expenses of the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Operation and review**

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The following observations are made.

- (a) Though the board had introduced high class clone group by the year 2009 which yields annual standard of 3000 kilograms per hectare, at present the yield per hectare was about 800 kilograms.
- (b) 3 special projects had been started of the year under review, though performance indicators had been prepared to measure the performance of it the performance evaluation report had not been prepared based on those indicators.

### **4.2 Management activities**

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The following observations are made.

- (a) Though 2 innovations had been identified through research and had taken patents for 3 years to 8 years, actions had not been taken to present them to innovative products.
- (b) Though the cabinet approval had been given to acquire lands of the year 2013, estates at Narampola (Alawwa) and Kumarawaththa (Monaragala) with buildings which were constructed by Rubber Research Board bearing a cost of Rs.16,199,917 had not been acquired till the year under review.
- (c) A balance of Rs.1,074,162 in provision for doubtful debt account as at 31 December of the preceding year had been written-off from the settlement account for debtors without obtaining approval from the treasury.

- (d) Out of advances paid to 18 suppliers amounting to Rs. 17,465,983 from 01 October to 31 December of the year 2017 Goods and services valued at Rs. 1,306,513 only had been supplied by 10 May 2018.
- (e) As per the boards of survey reports, as at 31 December 2017 a shortage of stock was Rs.147,292 and actions had not been taken to identify the reasons for the stock shortage.

#### **4.3 Under Utilization of Funds**

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A sum of Rs.5,046,772 had been deposited in a saving account without the treasury approval in the previous year to establish a medical aid fund had remaining without utilized.

#### **4.4 Idle and underutilized assets**

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The following observations are made.

- (a) Two machines with a cost of Rs. 9,327,004 had remain idle due to actions had not been taken to repair for time period of 2 years to 8 years.
- (b) A Rubber Process Analyzer equipment and accessories purchased for Rs.10,960,200 in the month of April 2017,had been remained idle due to not installation even as at June 2018.

#### **4.5 Un-economic transactions**

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Surcharges of Rs. 933,567 had been paid due to not including the cost of living allowance in computation the contribution to the funds and in computation the gratuity allowance since 2006 to October 2011 as per section 47 of Employees Provident Fund Act, No.15 of 1958 and the section 16 of Employee Trust fund Act, No.46 of 1980.

### **5. Sustainable development**

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#### **5.1 Achieving Sustainable Development Goals**

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It is required to take actions as per the United Nations Year 2030 “Agenda” on Sustainable Development, the Rubber Research Board had been aware on how the activities should be implemented regarding which comes under own scope relating to the year under review.

### **6. Accountability and Good Governance**

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#### **6.1 Delayed Projects**

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A contract had signed on 29 December 2016 with the respective contractor valued at Rs.17,338,090 to construct the work site building of the Board, though this contract should be finished within 190 days and the days had extended up to 31 October 2017 and the contract had not been finished till 31 July 2018.

## 6.2 Un-resolved Audit Paragraphs

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The following observations are made.

- (a) A loss of Rs.8,090,574 had been 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 on 29 November 2011 as per provisions in Trade, Tariff and Investment Policy Circular No.1/2010 of 10 December 2010 to an Estates Superintendent recruited without qualifications on contract basis. Actions had not been taken for the recovery from the responsible person for that as per the letter by Trade and Investment Policy Department TIP/SS/01/04/08/10 dated on 14 June 2016.
- (b) Actions had not been taken to reimburse the sum of Rs. 2,211,770 on behalf of to train graduates from the Ministry of Plantation that paid since the year 2011 to up to date.

## 7. 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.

<b>Areas of Systems and Controls</b>	<b>Observation</b>
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(a) Accounting	(i) Not maintaining Journal entries properly.
	(ii) Action had not been taken to recover arrears loan balances.
	(iii) Not prepared an internal control system to recover inquiry charges
(b) Library Administration	(i) Details on delay in handing over of books out from library had not been documentation.
	(ii) Deficiencies exist in implementing the regulations introduced to use of library books.
(c) Staff Administration	(i) Not obtain the approval from the Treasury for the reimbursement procedure of medical bills.
	(ii) Not obtain the approval by field officers from head of department/ sectional heads prior to departures.



- (iii) Not maintain visiting register and daily working reports.
- (d) Inventory and stock control
  - (i) Failure to maintain an inventory register regularly and all items not documentary.
  - (ii) Not prepared a suitable methodology to recognize goods receiving under special projects.
  - (iii) Identifying the stock shortage of the board and it not corrected.
  - (iv) Failure to introduce formal methodology to store chemicals securely, formal way to pack and documentation.
- (e) Assets Management
  - (i) Failure to prepare schedules in order to identify values of items separately for biological assets and absence of information relating to maturity period of each asset.
  - (ii) For conducting of Board of surveys of the board had been done by entries made in the inventory register without using T and A 66 forms.