

Head - 293 - Rubber Development Department

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Rubber Development Department for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of financial performance and cash flow statements for the year then ended 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. In terms of Section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Rubber Development Department, was issued to the Accounting Officer on 30 November 2020. In terms of Section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Rubber Development Department was issued on 30 November 2020 to the Accounting Officer. This report is submitted to Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements prepared in terms of provisions of the State Accounts Circular No.271/2019 of 03 December 2019, give a true and fair view of the financial position of the Rubber Development Department as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Department 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 Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for 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 summary 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.
- It is not intended to express an opinion on the effectiveness of internal control of the Department to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content based transactions and event the structure that the financial statements are appropriate and reasonable.
- Transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5. Report on Other Legal Requirements

As required by Sub-section 6(1) (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) that the financial statements are consistent with the preceding year,
- (b) that the recommendations made by me on financial statements of the preceding year regarding the observation indicated in paragraphs 1.6.2(d) and 1.6.4 (a) of this report had not been implemented.

1.6 Comments on Financial Statements

1.6.1 Non compliance of financial statements with circular instructions

Even though an imprest adjustment account had been prepared by the Department in terms of paragraph 7 (vi) of the Public Finance Circular No.271/2019 of 03 December 2019, the following observations are made in that connection.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) In terms of Financial Regulations; 208		
(i) Even though the expenditure of Rs.1,689,299 incurred on behalf of other Departments and the expenditure incurred under other main ledgers should be separately disclosed, without doing so, the total amount of Rs.6,995,106 had been included in the adjustment account as expenditure incurred on behalf of other Departments.	Financial statements should be prepared by separately showing the expenditure incurred on behalf of other Departments and the expenditure incurred under the main ledgers.	Expenditure incurred on behalf of other Departments had been included in terms of the circular, and as such there were no excess debits.
(ii) Even though the expenditure of Rs.2,167,085 incurred on behalf of other Departments and the expenditure incurred under other main ledgers should be separately disclosed, without doing so, the total amount of Rs.5,399,822 had been included in the adjustment account as expenditure incurred by the other Departments.	Financial statement should be prepared by separately showing the expenditure incurred by other Departments and the expenditure incurred under other main ledgers.	Expenditure incurred by other departments had been shown in accordance with the circular and as such there were no excess credits.

- (b) The amount of Rs.820,769 paid to the officers in respect of election duties but not reimbursed, by showing the balance of imprest adjustment account as Rs.571,801 that account had been balanced. Since the year end balance in the statement of financial performance had not been taken to the imprest adjustment account it was observed that this difference was arisen.
- Being included the balance in the statement of financial performance, imprest adjustment account should be prepared.
- This is not an erroneous adjustment. Since the imprest balance in the statement of financial performance is not equal to the balance of the imprest account, the imprest adjustment account is prepared and as such the balance in the statement of financial performance and the balance of the imprest adjustment account is reconciled with the imprest balance of Rs.820,768.89.

1.6.2 Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) According to the cumulative report in respect of non- financial assets in the Treasury (SA - 82), the value of the property plant, and equipment in the statement of financial position amounted to Rs.768,602,278 but according to the books of the Department it was stated as Rs.802,507,077 thus showing an unreconciled balance of Rs.33,904,799.</p>	<p>Reports on non-financial assets need to be reconciled and updated.</p>	<p>Since property plant and equipment was not included in the classification register, it was not stated. It is noted that action will be taken to include it correctly in the assets register in due course.</p>
<p>(b) According to the statement of financial performance the acquisition of capital assets in the year under review amounted to Rs.3,490,748, but it was stated as Rs.1,167,041 in the statement of non-financial assets presented along with the financial statements (ACA - 6) showing an unreconciled balance of Rs.2,323,707.</p>	<p>Correct values of all assets needs to be posted.</p>	<p>Since property plant and equipment was not included in the classification register, it was not stated. Action will be taken to rectify same.</p>

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| (c) In making payments to a contractor, 10 per cent retention had been excessively posted and as such the retention payable in the general deposit account had been overstated by Rs.170,068. | When payment vouchers are prepared, they should be properly checked and there should be correct assurance in respect of closing balances in the accounts. | Action will be taken to correct this retention money. |
| (d) After being wound up the Small Plantation Entrepreneurs Development Programme (SPEnDP) implemented under the Ministry of Plantation Industries, 16 motor cycles given to the Monaragala Regional Office of the Department had not been acquired and inventoried. | All fixed assets need to be posted to a register. | Sixteen motor cycles given under the project had been issued to the Rubber Control Officers of this Department. Action will be taken to post the values of these assets to the statement of assets. |

1.6.3 Cash flow Statement

Audit Observation

Recommendation

Comments of the Accounting Officer

 Interest income recovers from government officers should be stated as other receipts under non-income receipts in the cash flow statement but it had been treated as a cash flows generated from investing activities. As a result, cash flows from operating activities had been understated by Rs.1,689,868 whereas cash flows from investing activities had been overstated by the similar amount.

 Interest income recovers from government officers should be stated as other receipts under the non-income receipts in the cash flow statement under cash flows generated from operating activities.

 Since the interest income is shown as cash flows generated from investing activities, non-income other receipts had been under stated. It will be rectified in due course. Inclusion of interest income to be included in the non-income receipts as the investment income in the cash flow statement will be rectified in due course.

1.6.4 Non-maintenance of Books and Records

Audit test checks observed that certain following registers had not been maintained and certain registers had not been properly maintained and updated by the Department.

Audit Observation	Recommendation	Comments of the Department
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(a) Security Register

A security register, containing the particulars of officers and employees required to give security had not been prepared in terms of Financial Regulation 891(1).

A security register containing the particulars of officers required to give security needs to be maintained in terms of Financial Regulation 891(1).

It was unable to find evidence to ensure whether a security register had been maintained in terms of Financial Regulation 891(1). However action will be taken to maintain a security register in due course.

(b) Register of Losses

The register of losses had not been updated in terms of financial regulation 110.

A register of Losses needs to be maintained in terms of financial regulation 110 in accordance with the form stated therein.

No comment.

1.6.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliances with Laws, rules and regulations observed in audit test checks appear below.

Reference to Laws, Rules etc.	Non-compliance	Recommendation	Comments of the Accounting Officer
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(a)	Section 16(2) of the National Audit Act No.19 of 2018.	Every auditee entity, the annual financial statements, along with the annual performance reports within such period as may be	Annual performance reports should also be submitted along with the financial statements.	In terms of section 16(2) of the National Audit Act No.19 of 2018, financial
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provided by rules should be submitted by the Accounting Officer to the Auditor General but it has not been so done.

statements and the performance report had already been submitted separately. The performance report will be submitted along with the financial statements since the next year.

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| (b) | Stamp Duty Act (special provisions) No.12 of 2006 as amended by Act No.10 of 2008 and 13 of 2011. | There were occasions where stamp duty of Rs.25 to be recovered had not been recovered. | Stamp fees need to be recovered as stated in the Act. | The relevant officers had been informed to paste Rs,25 stamps on the vouchers which were subjected to observe without stamps and action will be taken to rectify these vouchers. Similarly, action will be taken to make the payment after being recovered the specific stamp fees in future. |
| (c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka
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| (i) | F.R.1645 (a) | Vehicles log books had not been systematicaly and properly maintained. | All notes to be included in vehicles log books need to be included. | Action had been taken to maintain proper and systematic vehicles log books. |
| (ii) | F.R.1646 | The original of the monthly summary written in general form 268(a), along with the daily running charts should be sent to the Auditor General Officer in charge of | Action needs to be taken to send the copy of the monthly summary and daily running charts as at the specific date to the | Action will be taken to send the original of the monthly summary written in form Auditor General |

vehicles through his Head of the Department before 15 day of the following month. Nevertheless, such documents in respect of 37 vehicles had not been so sent.	Auditor General in terms of Financial Regulations.	268(a) along with daily running charts in due course.
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(d) Public Administration Circulars

Public Administration Circular No.289 of 10 May 1985 and Circular No.26/92 of 19 August 1992.	Even though the state emblem should be stenciled in government vehicles, there were vehicles which had been run without state emblem in the Head Office and a Regional Office.	In terms of Circular instructions, state emblem and the name of the institution should be stenciled in all government vehicles.	Action had been initiated to stencil the state emblem and the name of the institution in the Head Office vehicles and Kegalle Regional Office vehicles.
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(ii) Paragraph 3.1 of the Circular No.30/2016 of 29 December 2016.	After 12 months from every fuel test or after running the distance of 25,000Km or after a major engine repair, whichever comes first the full consumption of vehicles should be tested. However, the quantity of fuel burnt by vehicles had not been tested by 4 Regional Offices.	Fuel consumption needs to be tested in accordance with circular instructions.	Directors of the Regional Offices were made aware about the testing of the quantity of fuel burnt in the vehicles. Accordingly, such testings are carried out now.
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2. Financial Review

2.1 Issue and Settlement of Advances

Audit Observation

Recommendation

Comments of the Accounting Officer

Even though sub-impressts should be settled within 10 days after the completion of the purpose for which it is granted in terms of financial regulation 371(5),18 sub-impressts totalling Rs.253,320 granted in the

Action needs to be taken against the officers who do not comply with regulations in terms of Section 8.1 and 8.2 of Chapter XLVII of the

Officers who obtain sub-impressts were made aware about the settlement of impressts immediately after the completion of the

year 2019 by the Department had been settled after delay ranging from 11 days to 95 days.

Establishments Code.

relevant purpose in terms of financial regulation 371. Action will be taken to check whether the advances taken have been properly settled.

2.2 Operating Bank Accounts

Audit Observation

According to the Bank reconciliation statement of the month of December 2019, the total value of cheques issued but not presented to the bank and lapsed for more than 6 months amounted to Rs.104,115. Action had not been taken in terms of financial regulation 396(d) in this regard.

Recommendation

Action needs to be taken in respect of cheques issued but not presented to the Bank and lapsed for more than 6 months in terms of Financial Regulation.

Comments of the Accounting Officer

After taking action in terms of financial regulation 396 in respect of 23 cheques valued at Rs.213,164 elapsed for more than 6 months in accordance with the bank reconciliation statement of December 2019, the balance money was Rs.104,115.87. It was informed to take action in terms of financial regulation 396 in respect of this amount and necessary action had already been taken to settle them.

3. Operating Review

3.1 Planning

Audit Observation

In terms of Public Finance Circular No.01/2014 of 17 February 2014, an action plan had been prepared for the year 2019 but particulars of approved and actual cadre, imprest requirement plan and the annual procurement plan for the main development programmes had not been included therein in terms of paragraph 3(6) of the Circulars.

Recommendation

A correct and complete annual action plan needs to be prepared in terms of the circular.

Comments of the Accounting Officer

It is agreed that in presenting action plan for the year 2019 in terms of Circular No.01/2014 of 17 February 2014 particulars of approved cadre and the existing actual cadre had not been included therein. Action will be taken to prepare the action plan, including such information in the future years. Action will be taken to

submit the imprest requirement plan for the annual activities in terms of Public Finance Circular No. 01/2014.

The annual procurement plan had also been presented at the time of presenting the action plan for 2019.

Action will be taken to include the procurement plan in the action plan in due course.

3.2 Non-achievement of expected output level

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Even though it was expected to replant rubber in 870 hectares and 900 hectares of lands belong to the rubber small land holders and plantation companies respectively in the year under review only, 578 hectares of lands and 463 hectares of lands respectively had been planted thereof. Accordingly, the non achievement expectations represented 34 per cent and 49 per cent of the expected lands respectively.</p>	<p>The achievements of the expected plan present 66 per cent and 51 per cent respectively and as such, target plantations planned by the action plan need to be achieved.</p>	<p>Of the targeted lands, plantation companies and small rubber land owners had replanted 462.84 hectares and 577.64 hectares and as such the achievements had been 53 per cent and 64 per cent of the planned areas respectively.</p>
<p>(b) Even though it was planned to plant rubber in 350 hectares of lands in traditional and non-traditional areas during the year under review, only 215 hectares of lands had been planted and as such the non achievement of the extent was 39 per cent of the planned areas.</p>	<p>Plantation targets planned by the action plan need to be achieved.</p>	<p>Since the large scale manufacturers, registered and unregistered in the Board of Investments, import rubber raw materials at a minimum price in terms of the theory of relative benefit, the local rubber planters do not get a fair price and as a result, it is</p>

difficult to persuade the rubber farmers to plant rubber. Therefore, since the lands to be used for replanting rubber are used for planting other profitable commercial crops and the heavy rain taken place during this season, it was unable to reach the expected percentage of replanting and new planting of rubber as planned.

3.3 Non achievement of expected outcome

Audit Observation

Recommendation

Comments of the Accounting Officer

 An agreement had been entered into with a private entity for the development of a software on Rubber Information Management System in the year 2016. Since the commencement of initial stage had delayed, the agreement had been revised being extended the completion period upto 2017. However, such software had not been completed even by May 2020 but an expenditure of Rs.17,453,971 had been spent therefore.

 The relevant software needs to be developed and completed soon.

 Rubber Information Management System (RIMS) programme has been implemented within the Department of Rubber Development under the consultancy of the Sri Lanka Information and Communication Technology Agency as an “E” – State project. In accordance with the government consultancy services procurement process and with the decision of the Ministry Consultancy Services Procurement Committee the development of Rubber Information Management System Software had been assigned to the price water house coopers’ (PWC). Within the period of identifying the requirement of the system, a certain delay had occurred at the initial stage of this programme in the PWC. After being extended the

period of requirement analysis again the PWC had started the development of this RIMS programme.

3.4 Assets Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Twenty four official quarters belong to other institutions and control under the Department had not been acquired by the Department even by the end of the year under review.	Expedite the land acquisition process and to settle the ownership of official quarters.	Acquisition of official quarters belong to other institutions and control under the Department is being carried out by Divisional Secretariats and other institutions.
(b) The land, 75 purchase in extend, had been purchased in the year 2009 for a sum of Rs.59.3 million for the construction of a Head Office building of the Department from Battaramulla area but this land had become idle without being utilized for the intended purpose.	Since over Rs.45 million has to be incurred annually for the Head Office as the annual rental, such money can be effectively used by the construction of a building	The land located at Battaramulla had been formally handed over to the Department by the Urban Development Authority recently. Accordingly, construction work is being carried out in future.
(c) Since the information system management programe could not be completed within the expected period, computers and computer accessories valued at Rs.6,571,732 purchased during the period from 01 year to 2 years to be given to the officers which are directly joined with the information system had been retained in the stores.	Despite the RIMS information system is not installed under the sever facilities of the Sri Lanka Information and Communication Technology Agency (ICTA) the purchase of computers and computer accessories require at the operating level is not fruitful. Such transactions need to be prevented.	The RIMS programme had been planned to complete in the year 2017. Subsequently it was scheduled to conduct training sessions for officers as per regional offices. But conducting RIMS traning sessions could not be completed within the specific period. At the time of testing the RIMS programme in the year 2018 it was observed that the efficiency of the software system was declined. As a remedy, this RIMS information system is

proposed to be installed under the server facilities of the Sri Lanka Information Communication and Technology Agency (ICTA) and the Department of Rubber Development had requested several time in this regard from the ICTA with the issue of laptop computers to the officers engage in duties in the offices, 100 tablet (TABS) computers had been purchased in the year 2018 to be issued to staff and non-staff grade field officers with the recommendation of the ICTA.

After a considerable delay, the production server facilities have been given by the Sri Lanka Information and Communication Technology Agency at the end of the year 2019. The price water house coopers (PWC) by which the RIMS software system was developed had suddenly informed in writing that it would keep away from computer and information system development activities of the government institutions. Therefore it was decided to select another suitable institution, testing at the final stage of RIMS project and maintenance work in accordance with the government consultancy services procurement process under the consultancy of the ICTA. The approval of the ICTA had been granted therefore. Documents had been prepared to distribute

the balance laptop computers, computer printers and tablets to be distributed among the officers soon. Since all equipment had been purchased with a warranty period of 3 years, the warranty period of any computer or accessories was not expired.

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| (d) Ninety cartridges and toners valued at Rs.802,902 purchased for the photocopies and printers during the period from 01 year to 3 years had remained in the store. | Attention needs to be paid in respect of requirement estimates in effecting purchases. | Only NPG 28 canon 303, Epson LQ2190 and Laser Jet Toner 1020 are now used out of these toners and cartages. Since other photo copiers and printers are inoperative relating to the other 6 types of toner and cartridges they have been removed from use, and as such the balance is shown. Moreover, toners and cartridge had been purchased after 01.01.2018 and they are used for the photo copiers and printers used by the Department now. |
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3.5 Officers required to give Security

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) In terms of Financial Regulation 880, officers who are administratively responsible for, or who under delegation are entrusted with the receipt or custody of public money revenue stamps or stores or the disbursement of public money or the issue of stamps or stores and those who certify vouchers or sign cheques on government accounts will be required to give security for the faithful discharge of their duties. However, 70	Officers who disburse public money or stamps the issue stores who are administratively responsible for or who under delegation are entrusted with and those who certify vouchers or sign cheques on government account will be required to give security for the faithful discharge of their	Action is being taken to prepare a security register in terms of Financial Regulation 880.

officers which engage in such duties. functions had not given securities.

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| <p>(b) According to the financial regulation 892, a revised statement of all officers required to furnish security should be prepared and such statements must be sent to the Auditor General at the end of every 3rd year but it had not been so done.</p> | <p>Lists of officers required to furnish security should be revised and such statements should be sent to the Auditor General at the end of every 3 year.</p> | <p>It is noted that the lists of officers required to give security will be revised and furnished to the Auditor General at the end of every 3rd year in terms of financial regulation 892.</p> |
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3.6 Uneconomic Transactions

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) In terms of Financial Regulation 835(C), in hiring buildings from a private party, an assessment for the rent should be obtained from the Government Chief Valuer. However payments had been made on an assessment obtained from a private valuer in the year 2016, in a manner being</p> <p>increased the rent for a square feet at 5 per cent annually. Accordingly, a sum of Rs.45,802,860 (with taxes) had been paid in the year under review for one year for 17,405 square feet since the government annual valuation for 3,048 square feet of the same building purchased in the year under review amounted to Rs.6,000,000, the rent per square feet had been Rs.164. Accordingly an over payment of Rs.55.3 per square feet had been made for the space obtained without a government valuation.</p>	<p>Payment of building rent should be in compliance with Financial Regulation.</p>	<p>Since the creation of posts arisen due to restructure of the staff of the Department of Rubber Development, the new accommodation had been obtained as an extention to the building obtained on rent basis in the year 2017. Subsequently, a government valuation had been obtained for the new partition.</p>

- (b) Since the officers for the expected posts had not been appointed, the expenditure of Rs.13,598,181 incurred on office building rent, partitioning of rooms purchase of telephone systems, furniture and equipment etc during the year under review could not be effectively used.
- Expenditure needs to be incurred in a most effective manner to the government.
- Since the Additional Director General had come to the post since 06.02.2020, that room is in use. Moreover, Action will be taken to fill the rooms by recruiting new Rubber Development Officer and the manager of the Egal oya nursery had been attached to the Head Office with effect from 16.03.2020 as the Senior Rubber Development Officer. Furthermore, an Assistant Director had come to the Assistant Directors office room by now. One clerk had been appointed to the Extension Division and the Extension Division will be further strengthened after the recruitment of graduates. Accordingly, the additional Director General, Assistant Director (Extension) Procurement Division and the Extension Divisions had been established in the space which have been under utilized due to dearth of staff.

4. Human Resource Management

The following observations are made.

Audit Observation

Recommendation

Comments of the Accounting Officer

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Audit Observation
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Comments of the Accounting Officer
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| (a) The post of Additional Director General created in the year under review belongs to the senior level of the Department, and 4 posts of Regional Directors, including 2 posts of Accountants, one post of legal officer the post of Deputy Director and the Posts of Assistant Directors had fallen vacant as at 31 December 2019. | Essential posts to be filled. | The senior level Additional Director posts of the Department is now filled, and to fill the other vacant posts, the Ministry of Public Administration and Home Affairs had been informed. |

(b) Fourteen drivers posts at the primary level had fallen vacant. To fill the vacancies.

After receiving the approval for filling the drivers vacancies, action will be taken accordingly.