

## **Head 293 – Rubber Development Department**

### **1. Financial Statement**

#### **1.1 Opinion**

Head 293 - The audit of the financial statements of the Rubber Development Department for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, and cash flow statement 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. The Summary Report containing my comments and observations on the financial statements of the Rubber Development Department was issued to the Accounting Officer on 19 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 21 June 2023 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements prepared give a true and fair view of the financial position of the Rubber Development Department as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for 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 evidences 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 Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per 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.

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 systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibility on 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 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year.
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

## 2. Financial Review

### 2.1 Management of Expenditure

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Out of the total provision of Rs. 110,285,000 for 03 recurrent expenditure objects in the year under review, a provision of Rs.10,800,000 for subscriptions and contributions (1505) had not been entirely spent and Rs.10,409,857 and a sum of Rs.2,313,000 equal to 12 per cent and 24 per cent of the net provision had been saved respectively from the provision made available for operating leases and other allowances.	The savings of provision has occurred due to suspension of new recruitments and raising of retirement age, non-renewal of operating leasing and rental agreements, failure of paying membership fee from the bank due to the problematic situation related to Dollars as per National Budget Circular 03/2022 Control of Public Expenditure Circular dated 26 April 2022 .	Actions should be taken to prepare Annual Estimates as accurately as possible and to apply the provision in the respective tasks.

<p>(b) Out of the provisions made for building and construction (2001) and research and development expenditure (2507) during the year under review amounted to Rs. 10,000,000, a provision totaled to Rs. 1,164,557 had been saved.</p>	<p>The savings has occurred due to the National Budget Circular 03/2022 issued on 26.04.2022 and Control of Public Expenditure Circular and non-receipt of funds as expected from the Treasury.</p>	<p>Arrangements should be made to prepare the Annual Estimates as accurately as possible and to effectively utilize the allocated funds in the relevant tasks.</p>
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## 2.2 Incurring of Commitments and Liabilities

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>Although the amount of liabilities and expenditure incurred shall never exceed the provisions for the year in terms of the F.R. 94 (1), the liabilities amounted to Rs. 634,867 had been entered into in excess of the net provision made under 03 expenditure objects during the year under review.</p>	<p>It is kindly noted that the existing commitments are within the scope of the provisions mentioned in F.R. 94(2). Nevertheless, instructions have been given that commitments and liabilities should not be created exceeding the limit.</p>	<p>Actions should be taken not to incur commitments and liabilities exceeding the approved provision.</p>

### 2.3 Non- compliance with Laws, Rules and Regulations

The instances of non- compliance with laws, rules and regulations are analyzed below.

<b>Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<b>Reference to the Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	
Paragraph 02 (b) of Asset Management Circular No. 04 /2022 dated 25 January 2022	Although the prompt actions should be taken to get repaired the vehicles that are not in running condition and to put to use effectively, 03 defective vehicles owned by the Department remained unused for a period of 01 to 05 years without being repaired.	It was unable to repair as the provisions received was not enough to carry out repairs. The repairs to vehicles that can be repaired and restored to running condition should be carried out promptly.

### 3. Operating Review

#### 3.1 Losses and Damage

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The Department had not taken actions to recover or write off the losses and damages totalling to Rs.3,106,351 in respect of 08 cases which had elapsed between 03 and 08 years since the loss occurred as at 31 December of the year under review.	A Committee was appointed to take actions with these damages and the said Committee has completed the investigations related to the damages of several vehicles and the inspections on remaining vehicles are being carried out.	Steps should be taken to recover losses and damages and actions should be taken to write off the irrecoverable losses and damages.

### 3.2 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Even though the Department had purchased a land of 75 perches valued at Rs.66,700,000 owned by the Urban Development Authority for the construction of the administrative building of the Rubber Development Department in the year 2009 by paying Rs.59,304,347, this land had not been taken over by the Rubber Development Department even by the end of the year under review and even though more than 13 years had elapsed, no construction whatsoever had been done on this land.	The Divisional Secretary has sent the Survey Department to inspect and measure the land for the formal transfer of the land purchased from the Urban Development Authority to the Department. Although allocations have been applied from the Treasury to construct a building on this land, the Treasury has informed that it is not possible to provide allocations for the construction of new buildings at this time.	The land should be acquired without delay and necessary construction should be made.

### 3.3 Management Weaknesses

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Out of the amount of cultivation subsidy given for rubber replanting and new planting for 32720 cultivators in 15 Districts a sum of Rs.113,368,340 should have been collected from 3,327 growers at the end of the year under review due to abandonment of cultivation.	Many measures such as sending letters to collect the subsidy money paid to the failed growers, holding meetings and informing the growers to repay the money through the field officers were carried out by the regional offices.	Actions should be taken to examine the matters that led to the abandonment of rubber cultivation by obtaining subsidies and to recover the money to be received promptly.

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| <p><b>(b)</b> The legal ownership of 69 quarters controlled under the Rubber Development Department is with other government institutions and actions had not been taken up to now to formally taken over the ownership of them.</p>  | <p>Relevant land acquisition activities from the Land Reform Commission, the Divisional Secretaries and the Rubber Research Institute, where the ownership of the lands of quarters is existed, are being carried out with the coordination of those institutions and acquiring of 04 lands have been done in the preceding year.</p>   | <p>Activities to acquire legal ownership of quarters should be expedited.</p>   |
| <p><b>(c)</b> Twelve quarters under 03 Regional Offices belonging to the Department were not used for a period of 03 to 10 years and those houses had become dilapidated and as a result, the Department had lost its sources of income as well.</p>                                  | <p>Although more than Rs.100 lakhs per annum is needed as approximate expenses per year to maintain quarters as required, since it is received about an amount of Rs. 50 lakhs from Annual Estimates, it is not possible to carry out all the required repairs in one year and some of the quarters have been used to run the Divisional Offices of the Rubber Development.</p> | <p>These quarters should be used for appropriate purposes on the basis of a formal approval and actions should be taken to carry out necessary repairs.</p> |
| <p><b>(d)</b> Actions had not been taken to get registered the 04 motor vehicles and 16 motorcycles which had been received since 01 to 11 years by this Department from other Departments and Ministries in the name of the Department even by the end of the year under review.</p> | <p>The requests have been made from the Ministry of Plantations to register the 04 motor vehicles and 16 motorcycles mentioned in the query in the name of the Department.</p>  | <p>The activities of taking over of vehicles and motorcycles received to the Department should be finished soon.</p>  |

#### 4. Human Resources Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although the approved staff of the Department was 481 at the end of the year under review, as the actual staff was 422, a number of 59 staff vacancies were observed during the audit. The Department had not taken actions to revise actual staff by considering approved staff or to recruit new staff.	A recruitment examination has been conducted to fill 47 out of these 59 vacancies of Departmental Rubber Development Officer and the approval has been requested for that recruitment. As the providing of permission of recruitment has been temporarily stopped as per government policy, the approval has not been given for that recruitment by now.	The necessity for staff vacancies should be accurately identified and the recruitments should be done.
(b) There were 13 senior level vacancies and although there were 02 Director posts and 04 Assistant Director posts in the Sri Lanka Administrative Service and 03 posts in the Accountant service, recruitments had not been done since the year 2020 .	As the recruitment and filling of vacancies for senior level posts in the Department is done by the Secretary, Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, the respective Ministry has been informed about these vacancies.	The necessity for staff vacancies should be accurately identified and the recruitments should be done