

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 2024 comprising the statement of financial position as at 31 December 2024 and the statement of Financial Performance, statement of changes net assets and cash flow statement for the year then ended, and notes to the financial statements including a material accounting policy 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 provisions of the Rubber Research Ordinance No. 10 of 1930, National Audit Act No. 19 of 2018, and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2024, 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 intends 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 (Auditor's Responsibilities for the 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 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.
- 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 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 Board'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 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 Reference to the Relevant Standard	Comments of the Management	Recommendation
(a)	Contrary to the Sri Lanka Public Sector Accounting Standards 02, Rs. 2,315,000 received from vehicle disposal had not been adjusted as a receipt in the cash flow, and the value of operating activities had been overstated by deducting the amount of Rs. 2,315,000, which was the profit from the disposal of the cars, from the deficit in the cash flow statement.	When presenting the financial statements for the year 2023, steps have been taken to include the proceeds from the sale of the institution's assets in the cash flow statement. However, the audit pointed out that the amount should not have been included in the cash flow statement. Therefore, the proceeds from the sale of assets in 2024 have not been presented in the financial statements.	Sri Lankan public sector accounting standards should be followed.
(b)	Even though the gross carrying amount of property, plant and equipment that has been fully depreciated but is still in use should be disclosed in the financial statements in accordance with paragraph 92(a) of SLPSA Standard No. 7, the gross carrying value of the solar panels, which were fully depreciated and still in use, amounting to Rs. 12,695,630, had not been disclosed in the financial statements.	The Gross Carrying Amount will be shown in the accounting records from the year 2025 as per SLPSAS No. 07, until the assets of the institution are revalued.	Disclosures in financial statements should be made in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Since the Ultrapure Water Purification System purchased for Rs. 1,616,950 on 26 April 2024 was accounted for as laboratory expenses, the board's deficit has overstated by that value, while non-current assets have been understated by that value.	Since the relevant research department had reported that it was a maintenance task when applying to purchase this equipment, the relevant expense had been accounted for as a laboratory expense. However, when asked about this by the audit inquiry, it has been reported that it was another piece of equipment needed for the existing equipment. Therefore, this accounting error will be corrected in 2025.	Assets should be accurately identified and accounted for.

1.6 Non-compliance with laws, Rules, Regulations and Management Decisions etc

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka (i) Chapter XII	According to the unapproved procedure manual of the Rubber Research Institute, 58 days of leave had been granted to officers in executive grades and 53 days of leave to officers in other grades for one year.	In accordance with Chapter 12 of the Establishments Code on Leave, steps have been taken to revise the leave of the institution to 45 days per year, consisting of 21 casual leaves and 24 vacation leaves, with effect from 01.01.2025.	Leave should be approved in accordance with the Establishment Code.

(ii) Section 4:7 of the Chapter XV	The total amount of Rs. 3,876,552, due to the Board from 4 officers who violated bond conditions by going abroad on paid leave for academic purposes from 2 years to 34 years, had not been recovered up to 31 December 2024.	The Attorney General had been consulted on legal action that can be taken to recover the amount of Rs. 2,761,932 due from B.P. Weeraratne and Thurul Warnakula, who violated the bond conditions. Similarly, two officers are currently paying the outstanding balance in instalments.	The relevant amount should be recovered from officers or guarantors who have violated the bond conditions in accordance with the provisions of the Establishment s Code.
(b) Financial Regulations 751 of the Democratic Socialist Republic of Sri Lanka.	Even though all goods received should be entered in the inventory immediately, a stock record and consumables register had not been maintained for glass test equipment including beakers and chemicals purchased for laboratories.	Research officers in all departments have been instructed to maintain a inventory and a consumables register.	An inventory and a consumables register should be maintained in accordance with financial regulations.
(c) Public Enterprises Circular No. PED 1/2015 dated 25 May 2015	Even though actual fuel expenses incurred may be reimbursed with the approval of the relevant line ministry secretary in special circumstances where the monthly fuel allowance is not sufficient for the Chairman to perform his duties	It has been recommended that the Board of Directors has to adhere the existing rules and regulations and obtain the proper approval of the Secretary of the Ministry of Agriculture and Plantation Industries.	Action should be taken as per the circular instructions given.

	, upon the recommendations of the Board of Directors, it had been added to the institution's expenses since the chairman had purchased fuel through the institution's orders.	Similarly, the Board papers regarding the reimbursement of additional fuel expenses used by the Chairman have not been forwarded to the Board of Directors meeting held on 21.08.2024.	
	(ii) Prior approval had not been obtained for obtaining additional fuel as per the relevant circular.	The Chairman has not taken steps to obtain prior approval from the Secretary of the Line Ministry to obtain additional fuel.	Prior approval should be obtained to get additional fuel.
(d) Paragraph 3.5 of the above circular	Even though an officer who has been allocated an official vehicle is not entitled to use another official vehicle, the double cab vehicle bearing number PD-2787, which was at the Dartonfield head office, has been provided to the Chairman for official duties on 29 May 2024 on the instructions of the Acting Director despite receiving a vehicle and fuel allowance allocated to the Chairman. Accordingly, it was observed during the	The double cab vehicle bearing number PD – 2787, which was at the Dartonfield Head Office, has been made available for the use of the Chairman of the Rubber Research Board as per the instructions issued by the Acting Director to the Transport Division on 29 May 2024 according to the verbal request made by the former Chairman to the then Acting Director.	Provisions of the circular should be followed.

inspection of the driving records that this vehicle had been used for the Chairman's official duties for a distance of 4,566 km over 40 days from 29 May 2024 to 11 October 2024.

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| (e) | Public Administration Circular No. 02/2018 dated 24 January 2018 and Chapter 3 of the Corporate Governance Manual No. 01/2021 dated 16 November 2021 | A formal human resources development plan had not been prepared by the Rubber Research Board. | An internal committee of the institution has been appointed under the chairmanship of the Acting Deputy Director (Administration) to prepare a formal human resource development plan for the Rubber Research Board, and action will be taken to prepare a human resources development plan as soon as possible. | A human resources plan should also be prepared in accordance with the provisions of the relevant circular. |
| (f) | Paragraph 6.7 of the Guidelines on Corporate Governance No. 01/2021 dated 16 November 2021 | Even though an annual verification is required for all assets, such a survey had not been conducted by the Board for the vehicles owned by the institution as at 31 December 2024. | Asset surveys, including vehicles, for the year 2024 are currently being conducted and reports will be submitted for audit after the survey is completed. | The guidelines should be followed. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 120,923,726 and the corresponding deficit in the preceding year amounted to Rs. 70,609,994. Therefore a deterioration amounting to Rs. 50,313,732 of the financial result was observed. The main reasons for the deterioration are decrease in government grants of Rs. 68,158,012 and other income of Rs. 9,561,230.

2.2 Trend Analysis of Major Revenue and Expenditure Items

Item	Year Under Review	Preceding Year	Difference compared to Preceding year	Percentage of Difference
	Rs.	Rs.	Rs.	Per cent
Government Grants	444,209,443	512,367,455	(68,158,012)	(13)
Other Income	37,972,808	47,534,038	(9,561,230)	(20)
Deferred Income		-		
Estate Income	119,937,401	117,584,111	2,353,290	2
Salaries, Wages and Employee Benefits	373,984,958	354,446,535	19,538,423	6
Supply and Consumption Costs	38,963,837	41,862,017	(2,898,180)	(7)
Depreciation and amortization expenses	127,053,972	163,536,107	(36,482,135)	(22)
Other Expenses	120,945,903	131,018,063	(10,072,160)	(8)

2.3 Ratio Analysis

Current Assets Ratio and Quick Assets Ratio were 2.9:1 and 2.3:1 respectively in the year under review and the figures were 5:1 and 4:1 respectively in the preceding year. The decrease in current assets by Rs. 40,312,827 and the increase in current liabilities by Rs. 8,688,235 had led to deterioration in the current ratio and quick asset ratio.

3. Operational Review

3.1 Identified Inefficiencies

Audit Observation	Comments of the Management	Recommendation
It has been stated that the trailer bowser bearing number 45-8703, valued at Rs. 130,000, is in a state of repair when obtaining the vehicle details on 25 September 2024. However, it has been reported that this trailer bowser has been sold as scrap iron by the Estates Division. No investigation had been conducted in this regard as of the audit date of 04 November 2024, and action had not been	An investigation has been conducted and the investigation report has been submitted by the accountant on 28.03.2025 for this purpose. The said investigation report has been presented to the Audit and Management Committee meeting held on 05.05.2025, and it has been informed that no direct recommendation has been made regarding who are the	Financial regulations should be followed.

taken in accordance with Financial Regulation 104(1).

officers responsible in the overall process that has taken place when the investigation report is considered. Accordingly, since instructions had been given at the Audit and Management Committee meeting to provide a formal investigation report in this regard, the Senior Accountant has been informed through a memo dated 23.06.2025, but the relevant report has not been provided yet.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the budget discussion of the year 2017, the establishment of a Finite Element Analysis and Simulation Center (FEAS CENTER) for the design and performance evaluation of rubber products as a business model through public-private partnership had been initiated in the year 2019 using Rs. 49.7 million with the intention of increasing rubber export revenue. Since the center's operations had been completely suspended since October 2023, i.e. for almost two years, the relevant building and all the computers and software, machinery, furniture and office equipment of which the cost is Rs. 38,918,694 remained idle.	The Plastics and Rubber Institute has been operated with the Finite Element Analysis and Simulation Center (FEAS CENTER) under an agreement from 23.08.2018 to 2023. The Plastics and Rubber Institute has withdrawn from these operations with the termination of the agreement. Therefore, this information has been reported to the Board of Directors and approval has been obtained to call for expressions of interest to reactivate the activities of the center. In parallel with this, steps have been taken to obtain a status report on the equipment available at this center and, in accordance with this information, expressions of interest will be invited and steps will be taken to conduct operations with the appropriate parties.	The functions of the institution should be planned and implemented systematically with proper study. Idle assets should also be utilized for productive purposes.

(b) The Rubber Research Board had not taken steps to maintain a master research register containing detailed information on the research conducted by the Board.	Steps will be taken to obtain a template for the main research document which contains detailed information on all research through the Research Review Subcommittee and to include information related to research activities from the year 2025. In parallel, detailed information from past research reports will be included in this document in due course.	A register of major research conducted by the Rubber Research Board shall be maintained.
(c) A turmeric cultivation program had been initiated in the Kuruwita Estate in year 2022, and Rs. 1,659,131 had been spent on raw material and labour costs, and Rs. 209,840 had been obtained as income. The colour of the turmeric powder had changed due to the turmeric harvest being processed into turmeric powder without proper standards, and 205 kilograms of turmeric powder could not be sold due to it being close to its expiry date as at the date of the audit.	To re-cultivate rubber in a land infected with white root disease, other temporary crops are cultivated until the pathogen is eliminated from that land. Accordingly, the Kuruwita plantation has also cultivated turmeric not for the purpose of making a profit, but as an intercrop until the land is prepared for rubber cultivation. Necessary steps will be taken to sell the amount of 205 kilograms currently in stock before the end of this year.	Before starting a program, a feasibility study should be conducted and plans should be made to ensure successful completion of the program.
(d) The plan numbers/deed numbers for 38 lands belonging to the Rubber Research Board and located in Kalutara, Ratnapura and Kegalle districts have not been found so far and the documents necessary to prove ownership of 15 lands had not been available with the Rubber Research Board.	According to a Cabinet decision dated 27.06.1994, the Advisory Services Department under the Rubber Research Board has been merged with the Department of Rubber Development. With this merger, the land and buildings are used by both institutions and the process related to the transfer of land has not been formalized. Therefore, the two institutions have jointly discussed on 19.12.2024 and requested the	The process of acquiring or transferring ownership of lands should be expedited and steps should be taken to obtain the necessary documents to prove ownership.

Rubber Development Department on 10.04.2025 to provide a detailed report. Steps will be taken to formalize the transfer of ownership of land and buildings based on this information.

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| <p>(e) Over 43 land plots and buildings belonging to the Rubber Research Board are used by the Rubber Development Department and this land had not been granted or transferred under a lease agreement. Furthermore, no steps had been taken to take over the estates of Kumarawatte, Monaragala, and Narampolawatte, Alawwa, which had been being used by the Rubber Research Board.</p> | <p>-do-</p> | <p>The ownership of the lands and buildings belonging to the board should be clarified.</p> |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Due to the failure to successfully complete the pilot project to introduce biofuel wood varieties for small rubber landowners, which was contracted with the Food and Agriculture Organization of the United Nations in the year 2017 and was scheduled to be completed in 2022, an amount of Rs. 4,283,644, or 40 percent out of the Rs. 10,457,200 received for that purpose, remained as at 31 December 2024.	An amount of Rs. 4,283,644 remains from the amount received as per the agreement signed with the Food and Agriculture Organization of the United Nations. Payments should be made for the work completed according to the agreement using that money. However, since the relevant information has not been verified and payments have not been made, a committee has been appointed on 06.05.2025 to identify the money owed to rubber farmers and institution officials, and action will be taken according to the recommendations received.	Efforts should be made to achieve the contracted tasks within the relevant time frame.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) The Gas Chromatography-Mass Spectrometry (GC-MS) equipment worth Rs.20,034,200 and ICP-OES equipment worth Rs.15,950,000 installed in the year 2020 belonging to the Tire Center had been used for testing samples on only 111 occasions in the past years, and the Board had been unable to generate revenue as expected from the purchase of these 02 pieces of equipment.	The purpose of purchasing these two devices is to test the composition of rubber and rubber products (heavy metal irons and polyaromatic compounds, etc.) and to provide research and services required in the production of high-quality rubber products for the local and international markets. The aim of purchasing this equipment is to provide these services to Sri Lankan industrialists at the lowest possible cost, thereby avoiding the high costs and delays that would otherwise be incurred when shipping to foreign countries. Therefore, the purpose of purchasing is not only to generate revenue but also to provide research activities and services.	Purchased equipment should be used as planned with maximum productivity.
(b) The Mooney Viscometer, which had been purchased in year 2014 for Rs.4,052,300, had been kept idle in the institution's premises without being repaired or put into use from year 2018 until the date of the audit due to a software error.	Since the supplier has been repeatedly contacted to correct this and has not received a response, measures will be taken to correct this through a knowledgeable officer from another institution.	Repairs should be carried out properly.

3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
32 officers with a service period ranging from 01 to 23 years, receiving daily wages, had been attached to the Board for the Management Assistant Service	Check roll employees are recruited based on the need of the Estates Department, and all their activities are carried out by the Estates	Recruitment should be made only with the approval of the Department of Management

and Laboratory Assistant duties of the Institute without the approval of the Department of Management Services.

Department, and only, when necessary, employees from the Estates Department are employed by the institution based on daily requirements.

Services.

3.6 Management of Vehicle fleet

Audit Observation	Comments of the Management	Recommendation
It was observed that the registration certificate of the vehicles bearing numbers WP/CAO/3470 and WP/NC/5811 purchased by the Board indicated the Chairman, Sri Lanka Rubber Research Institute	Currently, the ownership of these two vehicles is registered in favour of the Chairman. However, the ownership of this should be held by the director, who is the head of the institution, and the registration should be changed in favour of the Director, Rubber Research Institute of Sri Lanka, Dartonfield, Agalawatta. Therefore, a board paper has been submitted to the Board of Directors meeting scheduled to be held on 25.07.2025 to obtain approval to proceed with this matter.	The registration certificate of the vehicles should be obtained in favour of the Board.

4 Accountability and Good Governance

4.1 Annual Report

Audit Observation	Comments of the Management	Recommendation
Even though the annual report should be tabled in Parliament within 5 months of the end of the accounting year in terms of the Section 6.6 of the Operations Manual of the Public Enterprises Circular No. PED 01/2021 dated 16 November 2021, the annual report for the year under review had not been tabled to date.	The draft annual report for the year 2024 has been submitted to the Ministry on 24.03.2025. We have been informed through letter No. MPI/R/03/RRI–Annual Report 01 dated 20.06.2025 that the Annual Report 2024 should be prepared in accordance with Public Enterprises Circular 01/2021	The annual report should be tabled in Parliament as per Section 6.6 of the Operations Manual of the Public Enterprises Circular.

and forwarded to the Ministry immediately. I would like to inform you that the soft copies of the draft Annual Report 2024 have been submitted to the Ministry on 18.09.2025 for necessary action.

4.2 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
Even though the corporate plan should be prepared in accordance with Section 2.3 of the Guidelines Manual of Public Enterprises Circular No. PED 01/2021 dated 16 November 2021, a corporate plan has not been prepared for the year 2024.	The corporate plan has been prepared up to the year 2023. Measures are underway to prepare the corporate plan for 2025-2028.	The corporate plan should be prepared continuously in accordance with the provisions of the Guidelines Manual of the Public Enterprises Circular.

4.3 Audit Committee

Audit Observation	Comments of the Management	Recommendation
Even though 04 Audit and Management Committee meetings should be held in a year, once every 3 months in terms of the Section 4.2 of the Guidelines Manual of Public Enterprises Circular No. PED 01/2021 dated 16 November 2021, only 02 meetings had been held during the year under review.	This could not continue in the second quarter due to periodic changes in the composition of the Audit and Management Committees. It was not possible to hold the meeting due to the non-appointment of the Board of Directors for the third quarter.	Meetings should be held as per the provisions of the Guidelines Manual of the Public Enterprises Circular.