Sri Lanka Rubber Research Board - 2019

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 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance , statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2019, 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 based on the matters described in the paragraphs 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 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, matte related to going concern and using the going concern basis of accounting unless manageme either intends to liquidate the Corporation or to cease operations, or has no realistic alternate 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 Auditor’s Responsibilities for the Audit of the Financial Statements

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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 scepticism 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 Board’s 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 the Institute 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 Financial Statements

1.5.1 Sri Lanka Public Sector Accounting Standards

	Non-compliance with reference to the relevant standard	Comment of the Chief Management	Recommendation
(a)	Although Rs.4,237,429 had been shown in the financial statements as nominal value of 800 hectares of lands of the Board, those lands had not been revalued and fair value thereof had not been included in the financial statements.	Although Department of Valuation has been infored to assess the revaluation amounts of lands and buildings in terms of Accounting Standard No.07, it has not been carried out up to date. Therefore, as per the instructions of the Board of Directors, a recognized valuation firm registered with the Department of Valuation will revalue the lands and building and then, the value thereof will be brought to account.	According to the Accounting Standards, value of the the lands should be revalued and the fair value thereof should be stated in the financial statements.
(b)	Although income and expenditure should not be offset as required by Section 48 of Sri Lanka Accounting Standard No.01, the expenditure of Rs.762,229 incurred on the Dartanfiled Estate had been offset against its	In the preparation of accounts of the Dartanfiled Estate in the year under review, net income received for tea has been shown in	Income and expenditure should not be offset.

	income of Rs.928,726 and the net difference thereof amounting to Rs.167,547 had been stated in the financial statements. Further, overprovision for gratuity amounting to Rs.30,520 and provision for doubtful debts amounting to Rs.332,208 made by the Polgahawela Sub office had been offset against the administrative expenditure and stated in the financial statements.	the Income and Expenditure Account as a receipt. Nevertheless, action will be taken to separately account for income and expenditure in the future. Net value of the gratuity expenditure adjustments of the Institute including Sub office, Polgahawela has been included in the Income and Expenditure Account. Action will be taken to adjust the allocation of overprovision for doubtful debt in the preparation of accounts for the year 2020.	
(c)	In terms of Section 21(e) of the Sri Lanka Public Sector Accounting Standard, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statement should be stated. Nevertheless, action had not been taken accordingly.	Action will be taken to include the budgted amounts in the financial statements according to the standard in the future.	Action should be taken in accordance with the standard.
(d)	In the preparation of cash flow statements for the year under review, the amount spent for the purchase of fixed assets had been overstated by Rs.1,134,817, provision for depreciation and gratuity to the cash flow generated from operating activities under non-financial adjustments had been understated by Rs.2,059,284, payment of gratuity had been overstated by Rs.1,707,997, cash flow received from the grants made for special rpojects had been understated by Rs.4,117,396 contrary to the Sri Lanka Accounting Standard 02.	Necessary action has been taken to correctly identify income and include it in the cash flow statement and properly carry out adjustments to be made under non-financial adjustments in the preparation of accounts for the year 2020.	Actual cahs outflows and inflows should be correctly adjust to the cash flow statement.
(e)	The disclosures to be made when a class of property, plant and equipment is stated at revalued amounts had not been so made contrary to the Section 90 of Sri Lanka Public Sector Accounting Standard 07 and	Consolidated surplus/deficit has been shown under the relevant Note to the account in the balance sheets. Revalued surplus has been	Disclosures as referred to in the standard and correct amonts should be properly indicated in the financial

	instead of stating opening balance of the revalued machinery and vehicles, revalued amounts had been errorneously stated in the note relevant to the fixed asset. Likely, although the revalued profit of Rs.164,236,655 should be separately shown in the statement of changes in equity as the revalued surplus, it had been adjusted to the accumulated deficit.	separately shown in this Note No.12.	statements.
(f)	In terms of Section 15 of the Sri Lanka Public Sector Accounting Standard 09, value of the closing stocks should be measured at the cost or net realizable value, whichever is less and state in the financial statements. Nevertheless, without being considered the net realizable value, stock had been shown at the book value of Rs.17,419,593 in the financial statemet.	Action has been taken to state the value of inventories in terms of Accounting Standards.	As referred to in the Standard, value of inventories should be measured at the lower of cost or net realizable value and stated in the financial statement.

1.5.2 Accounting Policies

	Audit Observation	Comment of the Management	Recommendation
(a)	Amortizations for assets acquired from other capital grants totalling Rs.294,377,422 received over a number of years from the Treasury and other institutions for various projects had not been adjusted in accordance with the accounting policy of the Board and shown in the financial statements.	Action will be taken to identify balance of provisions received from the Treasury and other institutions for various projects and adjust the same as a diferred income in the future.	Assets acquired from other grants should be amortized according to the accounting policy of the Board.

1.5.3 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	Even though expenditure incurred during the year under review from the grants received by the Board from the General Treasury, Ministry and the National Science Foundation amounted to Rs. 37,994,202, a sum of Rs.100,185,893 including	Expenditure incurred for the researches implemented under the grants received from the National Science Foundation, Special Capital Projects and the General Treasury is shown as a note under the receipts and payments in the financial statemnts and it does not	Only the expenditure relating to the year should be brought to accout.

	the expenditure incurred in the preceding years had been shown as the expenditure of the year under review. As such, expenditure had been overstated by Rs.62,191,691 in the financial statements.	affect the profit or loss. Likely, action will be take to state the accurate expenditure relating to the year in the financial statements in the future.	
(b)	Although revenue expenditure of Rs.34,223,423 incurred during the year under review and the preceding year from the capital grants received from the Treasury should have been removed from the Capital Grant Account, a sum of Rs.42,775,418 had been removed from that account. Accordingly, the balance of the accumulated fund during the year under review had been understated by Rs.8,551,995 in the financial statements.	Although operating expenditure incurred during the year under review from the grants received from the Treasury should have been removed from the Capital Grant Account together with the balance of the preceding year, it had varied due to a mistake. Relevant correction will be made in the presentation of financial statements for the year 2020.	Relevant accounting deficiency should be corrected.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Evidence Not Furnished	Comment of the Management	Recommendation
Debtors	28,492,884	Balance confirmation letters	In order to settle a sum of Rs.23,173,704 out of the balances the recover of which had found defficult, it had been tranfered to a separate account in the preparation of accounts for the year 2017. Although letters had been sent over a number of years to confirm above balances, no adequate replies had been received. Therefore, a separate report has been referred to the Board of Management through the Audit and Management Committee in this regard. Action will be taken to adjust these balances in accordance with the decesions given.	Internal control system over the bebtors control of the Institute should be streamlined.

1.6 Non-compliance with laws, rules regulations and management decisions etc.

Instances of non-compliance with laws, rules regulations and management decisions are as follows.

	Reference to laws, rules regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a)	Section 4:7 of Chapter XV of Establishment Code of the Democratic Socialist Republic of Sri Lanka	Balances totalling Rs.3,509,706 recoverable to the Board over a period from 02 years to 28 years from 04 officers who had breached conditions of the bonds entered into for proceeding aboard on full pay leave to pursue studies had not been recovered from the respective scholarship holders and the relevant files had been misplaced and further actions had been discontinued.	Even though steps have been taken in accordance with the provisions of the Establishments Code to recover the amounts due from the officers who had breached conditions of the bonds entered into for proceeding aboard on full pay leave for academic activities, it has not been possible to recover balances due from those 04 officers up to date. Nevertheless, necessary steps will be taken to recover these balances in the future.	Steps should be taken in accordance with the provisions of the Establishments Code to recover the amounts due from the officers who had breached conditions of the bonds and proper control should be ensured on the accuracy the agreements and protection of the files.
(b)	Assets Management Circular No.01/2018 dated 19 March 2018 of the Secretary to the Treasury.	Even though a period of 03 to 05 years had elapsed form the removal of using 03 vehicles at estimated value of Rs.1,050,000 and older than 29 to 37 years, no action had been taken to dispose of those vehicles.	In order to remove old vehicles, disposal activities were carried out in accordance with the provisions of the relevant circular and two of the above vehicles have been removed by the relevant owners. Further, action will be taken to identify the unusable vehicles required to be disposed of and carry out disposals in accordance with the circular.	Action should be taken in accordance with the circular provisions.

2. Financial Review

2.1 Financial Result

The operations of the Board for the year under review had resulted in a deficit of Rs.53,790,676 as compared with the corresponding deficit of Rs. 21,250,394 for the preceding year, thus observing a increase in the deficit by Rs.32,540,282. This increase was mainly due to increase in the operating cost by Rs.127,066,371, though the Government grants and income had increased compared to the preceding year.

2.2 Trend Analysis of the Main Income and Expenditure Items

2.2.1 Income

* Total income of the Board including the grants received from the Treasury amounted to Rs.666,913,741 during the year under review and it was an increase of 16 per cent as compared with the total incomeof Rs.572,387,651 for the preceding year. Compared to the preceding year, the gross profit and other income of the estates had deteriorated by Rs.20,958,109 or 20 per cent other than the Government grants.

* Of four estate owned by the Board, 03 estates had sustained losses during the year under review while one estate had gained profits. The loss of the Kumara Estate had increased to Rs.7,070,125 during the year under review from the loss of Rs.5,858,799 in the preceding year, the profit of Rs.12,877,030 of the Dartenfield Estate in the preceding year had turned out to be a loss of Rs.10,622,791 during the year under review and the profit of Rs.11,883,378 of the Kuruvita Estate in the preceding year had decreased to Rs.1,797,383 during the year under review.

2.2.2 Expenditure

Total expenditure of the Board during the year under review amounted to Rs.720,704,417 and it was an increase in 21 per cent as compared with the total expenditure of Rs.593,638,045 in the preceding year.

2.3 Ratio Analysis

Item	Value of the year under review	Value of the preceding year	Difference with the preceding year	Percentage of the difference with the preceding year
	Rs.	Rs.	Rs.	%
Non-current assets	658,988,975	415,335,329	243,653,646	58.6
Current assets	167,780,816	206,808,430	(39,027,614)	(18.8)
Current liabilities	97,756,040	59,502,966	38,253,074	64.2
Non-current liabilities	143,314,133	130,991,234	12,322,899	9.4
Equity (Capital and Reserve)	585,699,618	431,649,559	154,050,059	35.7

The working capital ratios of the Board for the year under review and the preceding years are as follows

	2019	2018	2017
Current Ratio	1.7 : 1	3.5 : 1	3 : 1
Quick Ratio	1.5 : 1	3.2 : 1	3 : 1

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Even though office buildings had been constructed at a cost of Rs.16,301,964 on the lands at Narampola, Alawwa and Kumarawatta, Monaragala owned by the Janatha Estate Development Board, those lands had not been legally vested in the Board.	Having completed all necessary activities for taking over of ownership of the Naramapola (Alawwa) and Kumarawatta (Monaragala) lands belonging to the Janatha Estate Development Board, it had been forwarded to the Ministry. The Ministry is in the process of taking over of the aforesaid lands and on completion of the above legal proceedings, fawful ownersip of thsese lands will be vested in the Board.	Since constructions have been carried out on the lands not owned by the Board acquisition of those lands should not be delayed.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Increase in the national rubber production is one of prime prime objectives of the Board and annual yield stands between 1500 to 3000 kilograms per hectare. Despite being introduced high quality clones in the year 2009, the annual yield remained as low as 780 kilograms per hectare according to the Annual Rport, 2018 of the Ministry of Plantation Industries.	Even though the Rubber Research Institute recommended clones capable of producing 3,000 kilograms of dreid rubber per hectare annually, there should be necessary factors in the filed to plant those clones and obtin yield thereform. Since necessary factors such as 1. Availability of more than 450 trees on a hectare of land. 2. Sound growing condtion of the trees planted. 3. Manuring. 4. Adoption of proper tecqunics in tapping. have not been met, most of the cultivations in Sri Lanka produce very poor level of yield. Further, since those factors can be ensured in the field within first 03-04 years, the high yield as mentioned above can be obtained from new plantations by properly fulfilling the above requirements.	Since increase in the national rubber production is one of prime objectives of the Board, activities should be carried out so as to achive that objective.