

Sri Lanka Rubber Research Board - 2021

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Rubber Research Institute of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity, and cash flow statement for the year then ended and notes to 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in 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 2021, and its financial performance and 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 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 determines 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 intend 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 Sub-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 Scope of Audit (Auditor's Responsibility 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 scepticism 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 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 audit 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 audit report. However, future events or conditions may cause the Board 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;
- 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
According to Section 15 of Sri Lanka Public Sector Accounting Standard 09, the closing stocks should be valued at the cost or net realization value, whichever is less before being shown in the financial statements. However, without considering the net realization value, the value of stock had been shown in the financial statements at the book value of Rs. 6,744,735.	although it had been planned in the year 2021 that the stock value be disclosed in the financial statements as per Accounting Standard 09, it could not be done so due to unfavorable situation in the country. As such, action will be taken in the year 2022 to disclose the stock value in the financial statements in terms of the Standard.	The stocks should be valued to the cost or net realization value, whichever is less, before being shown in the financial statements as per the Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs. 4,237,430 had been shown in the financial statements as the nominal value of lands in extent of 431.78 hectares belonging to the Board. However, the fair value thereof had not been shown in the financial statements after being revalued.	Revaluation of lands and buildings could not be done through the Department of Government Valuation. Hence, action had been taken to obtain the reports of valuation after being valued by a qualified valuer. As such, action will be taken to show the total amount of revaluation on all the lands and buildings including the assessment value of land in extent of 431.78 hectares, in	The lands should be revalued and the fair value thereof should be shown in the statement of financial position.

the financial statements of the year 2022.

- (b) The stock value shown in the statement of financial position as at 31 December of the year under review included the sums of Rs. 489,000 and Rs. 434,249 as the values of unused stock and immovable stock respectively. However, the values shown in the schedules in that connection amounted to Rs. 1,512,680 and Rs. 752,000 respectively. As such, the stock value had been understated in the accounts by sums of Rs. 1,023,680 and Rs. 317,751 respectively.
- The sums of Rs. 489,000 and Rs. 434,249 as the values of idle stock and immovable stock respectively had been brought forward under stock value in the financial statements of the year 2021 since the accounting year of 2016. However, the balance in the stock control account amounted to Rs.9,213,691 whereas the values of idle stock and immovable stock identified therein as at 2021.12.31 amounted to Rs. 1,512,680 and Rs. 752,000 respectively. As such, corrective measures will be taken in the year 2022.
- Accurate values should be shown in the statement of financial position.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation -----	Comment of the Management -----	Recommendation -----
A sum of Rs. 5,214,500 had been brought forward over 11 years during 2011-2021 in the financial statements under receivable balances of the Board. However, action had not been taken to recover that balance.	Due to lack of formal information recorded in books in that connection, approval of the Board of Directors had been obtained to write off that sum, and approval of the Ministry had been sought on 2012.09.26. However, as no response had been received in that connection thus far, action will be taken to inform the Ministry again.	Action should be taken for the prompt recovery of funds receivable to the Government.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance -----	Comment of the Management -----	Recommendation -----
(a) Section 4.7 of Chapter XV of Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Balance totalling Rs. 3,509,706 remained receivable to the Board over 04-30 years from 04 officers who had breached the conditions of bonds by proceeding abroad under full-pay leave for academic activities, had not been recovered from the scholarship holders. The relevant files had been misplaced, and taking further action had been halted.	The files relating to 04 officers who had breached the conditions of bonds by proceeding abroad under full-pay leave, were not misplaced. Legal action has been taken for recovery of funds receivable to the Board from 03 officers whereas one officer has paid the amount in full.	Action should be taken in accordance with provisions of the Establishments Code to recover the relevant amounts from officers who breached the conditions by proceeding abroad.
(b) Asset Management Circular No. 01/2018 of the Secretary of Treasury dated 19 March 2018.	A period of 02-09 years had lapsed since 06 vehicles with an estimated value of Rs. 4,300,000 had been withdrawn from use. However, no action had been taken to dispose those vehicles.	Six old vehicles of the institution had been identified for disposal. Action had been taken at the beginning of the year 2021 in terms of Public Finance Circular, No. 2/2015 to dispose those vehicles, but the process of disposal had delayed due to Covid-19 pandemic. Nevertheless, approval of the	According to the provisions of Circular, action should be taken without delay to dispose the vehicles not in running condition.

Ministry has been sought to call for quotations to dispose the vehicles. Further action will be taken once the approval is received.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 15,873,555 as compared to the corresponding surplus of Rs. 10,850,732 for the preceding year thus observing an improvement in the financial result by Rs. 5,022,823. This improvement had mainly been attributed by the increase in Government grants and revenue from the estates.

2.2 Analysis of Trends in Main Items of Revenue and Expenditure

Item	Year under Review	Preceding Year	Difference	Percentage of Difference
	Rs.	Rs.	Rs.	%
Government Grants	423,490,000	414,000,000	9,490,000	2
Other Revenue	10,657,312	10,927,301	(269,989)	(2)
Deferred Income	139,733,221	143,037,426	(3,304,205)	(2)
Estate Revenue	118,624,133	94,848,165	23,775,968	25
Salaries, Wages and Employee Benefits.	377,217,587	315,631,115	61,586,472	19
Expenditure on Supplies and Consumables	24,033,699	8,038,748	15,994,951	199
Maintenance Expenditure	49,633,350	25,507,224	24,126,126	94
Expenditure on Depreciation and Amortization	111,860,976	96,874,142	14,986,834	15
Other Expenses	113,496,929	205,869,599	92,372,670	45

2.3 Ratio Analysis

The ratio of current assets and quick assets of the year under review was 5.3:1 and 4.9:1 respectively whereas those values stood at 3:1 and 2.7: 1 for the preceding year.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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(a) Action had not been taken to recover the balance of Rs. 14,044,349 that had remained receivable from 466 debtors over a period of 10 years as at 31 December of the year under review; instead, provision for bad debt had been made in respect of the total amount. As those debtor balances remained unrecoverable, action had not been taken to write off that balance.	Of the debtor balance amounting to Rs. 14,407,500, a balance of Rs. 14,044,349 had continued to exist over 10 years as at 2021.12.31. Action had been taken to make adjustments for Rs. 2,599,565 out of those debtors. Action will be taken to make necessary adjustments with respect to the balances pertaining to the other 197 debtors.	All the measures should be taken for recovery of the debtors' balances. Formal approvals should be sought for adjustments.
(b) Four construction works including office buildings and development of official quarters that had been scheduled by the Board to be commenced in the years 2019 and 2020 and completed within the same years at a value of Rs. 11,188,313, could not be completed even by 31 December of the year under review.	Four of the contracts awarded in respect of renovation works commenced in the years 2019 and 2020 could not be completed by the end of the year 2021 due to reasons such as the Covid-19 pandemic and scarcity of building materials in the wake of inflation in the country. Action will be taken to complete those contracts in due course.	Action should be taken to complete the constructions without delay.
(c) The Board had received a sum of Rs. 1,081,074 from a University in New Zealand in March of the year under review in respect of a Cilika	The said sum had been received in the year 2021 from a University in New Zealand on a Cilika research project. Action has	The funds received on projects should be utilized to increase the performance of relevant projects.

research project. However, those funds had not been utilized on the intended project even up to 31 July 2022.

been taken to pay a sum of Rs. 466,250 out of that amount, and the balance will be used to settle the expenses relating to the project. The remaining balance will be credited to the revenue thus updating the accounts of the year 2022.

- (d) A sum of Rs. 5,000,000 had been deposited in a savings account of the Bank of Ceylon as a medical assistance Fund by the Board in February 2016. Approval of the Treasury had not been received for maintaining this deposit, and no payment relating to medical assistance had so far been paid. As such, the balance of that account amounted to Rs. 6,219,318 as at 31 December of the year under review.
- According to provisions of Rubber Research (Amendment) Act No. 58 of 1961 relating to the establishment of a Fund for providing medical assistance for the employees of the institution, a sum of Rs. 5,000,000 had been deposited in a savings account in the year 2016 on approval of the Board of Directors. Although approval of the Treasury had been sought thereon, such an approval was not received. Action will be taken to implement in due course after reporting the recommendations of the Audit and Management Committee to the Board of Directors.
- The Fund should be maintained under approval of the Treasury.
- (e) Ten electric utility poles valued at Rs. 143,934 had been purchased in the year 2017 to renovate the electric wiring system of the Board, and 20 Dura panel boards had been purchased at the value of Rs. 83,536 to renovate the record room of the accounting division in the year 2019. However, those items had not been made use of even up to 31
- Although those electric utility poles had been purchased for renovating the electric wiring system of the Board, there existed no financial provision required therefor in the year 2022. As such, the residential engineer had been instructed to carry out the renovations in due course.
- The works division had
- The pre-procurement process should be properly executed, and formality should be ensured in utilization of assets.

July 2022.

purchased 10 Dura panels for the record room without conducting a proper study. However, having been identified later that those panels had not matched the intended purpose, the panels were stored at the works division to be used for other purposes.

- (f) A number of 228 items kept in the stores of the Board without being used for 05 years and valued at Rs. 1,119,838, had not been disposed even up to the year under review.
- The list of items in the stores not used or decayed beyond use as at 2021.12.31, had been sent to all Heads of the Departments. In case of any item being requested as per their requirements, action has already been taken to issue such items to the Departments.
- Procurement activities have been commenced to sell the items further remaining after being so issued.
- Action should be taken to optimally make use of the items not being used by the Board. The disposal process should also be expedited.

3.2 Human Resource Management

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The post of Director of the Board had remained vacant for a period of 05 years from 2017 up to 31 July 2022. No action whatsoever had been taken to appoint an officer to that post. As the said post was permanent, an appointment should have been made promptly, but the Additional Director had been appointed to that post on acting basis.	This post had fallen vacant in December 2018. Applications were called therefor in January 2019, and the interview was conducted on 28 February 2019 but the results thereof was not issued by the Ministry. As such, applications were called for again in the year 2021. Nevertheless, the interview could not be conducted due to non-receipt of approval of the Ministry.	Action should be taken to fill the vacancy in the key and permanent post of the Board.

- (b) The post of Deputy Director (Administration) remained vacant since 2017. In order to fill that vacancy, applications were called in the year 2021, two qualified applicants were selected, and final recommendations of the interview were also obtained. Nevertheless, recruiting an officer to that post remained delayed for 05 years. Accordingly, the administrative works of the Head Office in Agalawatta, Office in Ratmalana and sub-centers in Nivithigala Kele, Kuruvita, Monaragala, and Polgahawela, could not be executed properly.
- A discussion had been held at the Ministry of Plantation Industries on 23 August 2022 to identify the vacancies that should have been necessarily filled and grant approval thereon. The interview relating to the post had been completed and the recommendations had been forwarded to the Ministry. Instructions had been given to us on that day that an approval should again be sought together with the relevant documents. Accordingly, such a request has already been presented to the Ministry.
- Actin should be taken either to revise the approved cadre of the Board or make appointments to the essential posts.
- (c) Fifty nine posts of Chief Research Officer, Senior Research Officer, and Research Officer, had been approved whereas 37 vacancies existed at the Research Division comprising 10 Research Officers, 13 Senior Research Officers, and 14 Research Officers. Accordingly, 62 per cent of the posts had fallen vacant only in Research Division. Making appointments to those posts had been delayed.
- The Ministry had been requested that approval be granted to call for applications internally for the post of Chief Research Officer. Applications were called for the post of Senior Research Officer. The Ministry has already been informed on the dire necessity of filling those vacancies. Applications have been called for filling all the vacancies in the post of Senior Research Officer. The Ministry has been requested for a special permission to conduct the written examination as per the Scheme of Recruitment for making appointments to a limited number of vacancies out of the said vacancies.
- Action should be taken either to fill vacancies or revise the approved cadre based on service requirements.