

Sri Lanka Rubber Research Board - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 Rubber Research Ordinance No. 10 of 1930, 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 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 2022, 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 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 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 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:

- 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 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; 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 Observation 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	Comment of the Management	Recommendation
<p>According to section 42 of Sri Lanka Public Sector Accounting Standards 01, the presentation of items in the financial statements should be kept unchanged from one period to the next. But in the statement of changes in equity submitted on 31 December 2022, the balance of Rs.180,438,029 brought forward from the previous year was not recorded as the opening balance of the reviewed year and it was added to the revaluation surplus of the reviewed year and the total revaluation surplus had been presented as Rs.4,447,449,850.</p>	<p>The total revalue amount is taken into account while preparing the statement of change in net assets. However, action will be taken to prepare the statement of changes in net assets in the future according to the points indicated.</p>	<p>The statement of changes in net assets should be prepared correctly.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Capital grants of Rs.57,865,800 received by the Board in the year 2022 were credited to the accumulated fund without being accounted as an income.	In the year 2022, the deferred income accounted is the sum of the amount of depreciation written off in the year for fixed assets purchased from capital grant receipts and the expenditure incurred directly on research and development from those grants. Accordingly, except the amount written off during the year, the remaining amount has been accounted under capital grants.	Capital grants should be properly accounted in the financial statements.
(b) Necessary adjustments had not been made in the financial statements for the 75 immovable stock items, such as vehicle spare parts, maintenance materials, cleaners, and stationery, and 08 damaged stock items included in the final physical stock balance of the head office, which amounted to Rs.373,671 and Rs.10,574 respectively.	The immovable and damaged stock in the physical stock of the main warehouse has been removed in the year 2022. However, action will be taken to re-identify non-movable and damaged stock items and adjust accordingly in the year 2023.	Inventory should be properly accounted in the financial statements.
(c) In the year 2022, although the total revaluation gain of land and buildings was Rs.4,276,065,636, it had been accounted as Rs.4,267,011,823, thereby revaluation gain in the financial statements had been understated by Rs.9,053,813.	This difference has occurred as the amount of depreciation for the year has not been adjusted while calculating the revaluation gain. Action will be taken to revise the change in the future.	Revaluation gain should be calculated accurately.

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| (d) Depreciation of Rs.9,591,117 had not been accounted for vehicles disposed during the year and revalued land and buildings. | This difference has occurred because the amount of depreciation for the year has not been adjusted while accounting for the revaluation values and vehicle sales values. Action will be taken to revise that difference in the future. | Depreciation for the year should be calculated in accordance with the accounting policies. |
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1.6 Accounts Receivable

Audit Observation	Comment of the Management	Recommendation
(a) In the year 2008, the cost of Rs.5,214,500 incurred for the construction of the land and building assigned to the National Institute of Language Education and Training by the Rubber Research Board was not settled, but was brought forward in the accounts as other receivable balances.	An advance of Rs.5,214,500 has been paid to the National Institute of Language Education and Training for the construction of its building. After that, in the year 2012, the right of this has been transferred to the concerned institution, but the advance given has not been settled. A report has been called by the audit and management committee on this and based on that report, necessary steps will be taken to settle this balance in the future.	Action should be taken to settle the balances by agreeing with the relevant institutions.
(b) As the Ratmalana office did not follow a specific method of collecting fees before or during the issuance of inspection reports, Rs.205,375 need to be collected from government institutions, private institutions and individuals for the inspection reports issued in 47 cases by 03 research departments by 31 December 2022.	A formal system for this has been introduced from 24.04.2023. Disregarding the circular instructions issued earlier, instructions have been given to settle the loan balances given by the departments within a period of three months.	Outstanding research fees should be recovered promptly. Arrangements should be made to avoid such shortages.

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| (c) | In an account named "Debtors Settlement," which was more than 10 years old, the amount that should have been collected from 07 debtors amounted to Rs.3,408,310 and Rs.1,286,279 should have been collected from two officers who violated the bond conditions but had not been recovered. | Although efforts have been made for a long time to collect the balance due from the officials who violated the bond conditions, it was not possible to collect the money. Therefore, arrangements have been made to provide 100 percent doubtful debt provision in accordance with the risk and accounting policies to recover the balance. | Immediate action should be taken to recover the money. Provision for doubtful debts should be provided for uncollectible balances. |
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

	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.	The sum of Rs.4,755,341 due to the board for a period of 29 years to 32 years from 05 officers who violated the bond conditions after taking paid leave for academic activities had not been recovered till 31 May 2023.	Legal cases have been filed against two officers and negotiations are being made with other officers.	In accordance with the provisions of the Establishments Code, the relevant amount should be recovered from the officers who have breached the bond conditions.
(b)	Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka			

(i) F.R. 880 (i)	As per the referred regulation, the Board had not kept the deposit of bail from the officers who were supposed to keep deposit.	Action had not been taken from the beginning to keep the bail money from the officers who were supposed to keep deposit of bail in the institution. This will be discussed in the future management meetings and that decision will be implemented.	Action should be taken to keep the deposit of bail from the officers who are required to give deposit of bail as per the referred regulation.
(ii) F.R. 891 (i)	A register of bail containing details of officers to be made bail had not been maintained.	It Will be implemented in future.	A register of bail should be maintained containing all the details.
(c) Amended by State Finance Circular No. 01/2020 dated 28 August 2020 (i) F.R.371(2) (b)	For a particular task, only the executive officers of the staff can be given a sub-impresst up to a maximum of Rs.100,000 in one case, but contrary to that, in three cases, three officers of the Rubber Research Board were given two sub impresst of Rs.200,000 each and one sub impresst of Rs.300,000.	The expenses of an international conference had to be made under special advances. There the estimated amount is given. The difference between the amount given and the actual cost is re-deposited. Such discrepancies have arisen as the money spent in such programs cannot be accurately estimated.	Sub impresst should be given in accordance with the relevant financial regulations.

(ii) F.R.371(4)	Although the accounting officer should not receive sub imprest for specific and unnecessary tasks, due to the fact that the need was not specifically identified, the sub imprest of Rs.127,500 given in 12 cases was returned without spending. In 18 cases, 45 to 83 percent of the advances given were refunded. A case where it took 04 months to hand over the money back was also observed.	Arrangements have been made to inform all the sections/department s through a memo about the instructions regarding obtaining and settlement of advances, but it has been done in a non-compliant manner. Therefore, inquiries have been made to the relevant officials about this.	Sub imprest should be issued in accordance with the relevant financial regulations.
(iii) F.R.371(5)	Although the Sub imprest should be settled within 10 days after the completion of the tasks given to it, the institute had delayed between 14 days and 49 days to settle 28 Sub imprest, which was a sum of Rs.426,609 in the year 2022.	Internal instructions on giving petty cash advances have been issued, but instances where the contrary have been pointed out. Relevant officials have inquired about this and will take further steps based on the information.	Sub imprest should be issued in accordance with the relevant financial regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.6,367,158 as compared to the corresponding surplus of Rs.15,873,555 for the preceding year. Accordingly, a deterioration of Rs.9,506,397 was observed in the financial result. Decrease in treasury grants by Rs.28,840,000, increase in salaries and wages and employment benefits and maintenance expenses by Rs.16,969,417 and Rs.8,162,135 respectively had been the main reasons for this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

Item	Year under Review Rs.	Preceding Year Rs.	Increase/ (Decrease) Rs.	Percentage percent
Government Grants	394,650,000	423,490,000	(28,840,000)	(7)
Other Income	21,242,083	10,657,312	10,584,771	99
Deferred Income	174,271,891	139,733,221	34,538,670	25
Estate Income	133,143,628	118,624,133	14,519,495	12
Expenditure on Supplies and Consumables	29,029,011	24,033,699	4,995,312	21
Maintenance Expenditure	57,795,485	49,633,350	8,162,135	16

2.3 Ratio Analysis

In the year under review, the current assets ratio and quick assets ratio was 5.4:1 and 4.9:1 respectively and in the previous year the ratios were 5.3:1 and 4.9:1 respectively. Rs.74,920,070 were kept as cash and cash equivalents and Rs.34,618,244 had been given as advances to suppliers at the end of the year, which had led to a high value of these current assets and quick assets ratios.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Although the Rubber Research Board had constructed office buildings at the cost of Rs.16,213,367 in the 02 sub-centres of Monaragala Kumarawatta and Alawwa Narampolawatta 02 centers on 31 December 2022 and included in the financial statements, those lands had not been legally taken over from the Janatha Estates Development Board.	Monaragala Regional Secretary and Janatha Estate Development Board have been asked to provide the necessary support to carry out the tasks to be completed regarding the transfer of the ownership of the land in Monaragala Kumarawatte to our organization. Necessary arrangements have been made to take over the ownership of the Polgahawela Narampolawatta land and to pay the relevant survey fees for land acquisition. Accordingly,	Acquiring the legal rights of the lands should be expedited.

instructions have been given to carry out the necessary activities.

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| (b) | The Board had planned to construct a building by 31 December 2021 to establish a tire inspection unit and had purchased 03 machinery worth Rs.29,907,471 for that purpose in the months of March and May of the year under review. But due to the failure to construct the relevant building, this equipment remained idle even on 31 December 2022, which was the date of audit. | This equipment is currently installed and research work will be started soon. | Assets should be utilized promptly.
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| (c) | The concrete piles purchased during the year under review for Rs.196,300 were lying unused at the construction site relating to the construction of “Tyre Inspection Building”. | These concrete rings have been placed on the site until they can be used again as the construction work has stopped. These rings will be used when building construction begins. | A tire inspection unit should be established without delay. |
| (d) | In the year 2019, a “Finite Element Analysis and Simulation Center” was set up at a cost of Rs.49.7 million to design and evaluate the performance of rubber products as a business model under Public Private Partnership. But even at the end of the year under review, it was observed in the audit that the establishment of the center had not achieved the desired objective of manufacturing tire models. | Action will be taken to revise and re-sign the terms of the agreement related to this. | The expected production at the centre should start without delay. |
| (e) | Two contracts which were started by the board in the years 2019 and 2020 and were to be completed within the same 02 years with a total contract value of Rs.6,334,344 as electrical | The works of these constructions started in the years 2019 and 2020 have now been completed and will be corrected in the accounts of the year 2023 after receiving the | Action should be taken to avoid such delays. |

installations for the Agalawatta factory and repairs of the Department of Biochemistry and Physiology in Ratmalana were not completed by 31 December of the year under review and Rs.5,028,253 had been paid for this.

certificate of completion.

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| (f) | In 2017, 10 electric poles were purchased at a cost of Rs.143,934 to modernize the existing electrical wiring system of the Board, but the planned work using those poles was not completed until the end of the year under review. | Poles of these power lines have been fixed and after receiving funds, steps will be taken to lay the wires. | The electrical wiring system should be modernized without delay. |
| (g) | In the year 2019, 20 Dura Panel Boards were purchased at a cost of Rs.83,536 for the modernization of the archives of the accounts department, but at the end of the year under review, 10 boards were used outside of the purpose and 10 boards remained idle. | The remaining Dura Panel Board will be used for future repairs of the institute. | The archives of the accounts department should be modernized as planned. |
| (h) | From the Rs.500,000 grant received in January 2022 for the construction of a smokehouse at Monaragala sub-centre, an expenditure of Rs.448,450 was incurred for the purchase of raw materials in the months of July, October and December 2022. But action had not been taken to complete the construction by 27 April 2023, the date of audit. | The amount of Rs.500,000 given by the Thurusaviya Fund was used to build smokehouses and the work of Rs.448,450 was completed, but the money given was not enough. Therefore, action will be taken to complete using institute's funds in the future. | Action should be taken to complete the construction work as planned and the assets should be used. |

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) According to the action plan of 2022, the plant science department aimed to test 02 intercropping models in relation to the evaluation of intercropping under rubber cultivation, but the work had not been accomplished.	Although these research activities were planned to be carried out in Monaragala and Ampara areas, it was difficult to provide transportation facilities due to the fuel problem. Currently, the relevant data is being collected and analyzed. As it reflects successful results, 02 fruit crop cultivation systems and a field crop cultivation system with rubber in the intermediate zone are planned to be submitted for recommendations.	Action should be taken to achieve the planned targets within the relevant period.
(b) According to the action plan of 2022, Rs.500,000 had been allocated for the purpose of introducing an advanced technical method of cutting latex by the plant science department, and at the end of the year, only data collection had been done for it.	Using these funds, several latex cutting techniques were tested. An imported milking machine for cutting latex was also tested. Due to the bad weather at the end of last year and the necessary maintenance of the machine, the data collected was insufficient. As this machine has shown satisfactory results, it is planned to present it to the research committee of the institute.	Action should be taken to achieve the planned targets within the relevant period.
(c) According to the action plan of 2022, when submitting the progress of the plant science department to the audit, only a sum of the expenditure incurred in relation to 08 tasks was presented, so the expenditure incurred for each task could not be identified separately.	As a research division, research data and financial information are always recorded separately for functions. But since the end of 2021, the number of employees has decreased. However, steps will be taken to avoid these activities in 2023.	The expenditure incurred for each task should be submitted to the audit with supporting documents so that it can be identified separately.

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| (d) | According to the action plan of 2022, the Department of Rubber Research and Development aimed to provide technical assistance to 150 entrepreneurs in the production of rubber-related goods, but only 60 entrepreneurs were trained. It is 40 percent of the target amount. | In 2022, on the request of 60 entrepreneurs, they were given training for the production of rubber-related goods, and on the request of 16 industrialists, the problems arising in the production of rubber compounds/goods were resolved. On the request of 20 industrialists/plantation companies, tests were conducted for raw rubber/rubber compounds/rubber goods and quality certificates were also issued. It is 64 percent as a percentage and some of the 60 entrepreneurs will now produce rubber-related products for local markets. | As per the action plan, the planned tasks should be completed within the relevant time frame. |
| (e) | As per action plan 2022, Biometrics Division has allocated Rs.360,000 to improve the reliability of research projects through appropriate statistical methods and improve knowledge of climate change and variability for better decisions in rubber growing areas, but the financial progress in the year under review was Rs.190,000. That is 52 percent of the allocated amount. | Although allocations were allocated for the biometric sector, some allocations were planned to be used for data collection, but in order to collect the data, they had to travel to the areas where rubber is grown in large numbers. But due to the fuel crisis in the country, it was not possible to collect data for those activities. Also, due to the foreign currency crisis, it was not possible to update the software we used. Therefore, spending money on those activities from the allocated allocations was limited. | Action should be taken to achieve the planned targets within the relevant period. |
| (f) | As per the action plan of 2022, the division of Genetics and Plant Breeding had planned to exchange clones multilaterally with 2 countries, but that work had not been accomplished. | Despite discussions with 4 countries for this purpose, there was no suitable situation to exchange those clones based on the situation in those countries in 2022. | Action should be taken to achieve the planned targets within the relevant period. |

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| (g) | According to the action plan of 2022, the division of Genetics and Plant Breeding had planned to produce 150 new genotypes, but only 68 genotypes had been produced. | Bad weather conditions and defoliation caused many pollinated flowers to drop and 1398 artificial pollinations were carried out but only 68 were successful. Despite following all necessary measures to avoid this situation, due to the bad environmental situation, these problematic situations have been continuously faced. | Action should be taken to achieve the planned targets within the relevant period. |
| (h) | According to the action plan of the year 2022, physical targets had been set by the Plant Pathology and Microbiology Division, but the targets achieved on 31 December 2022 were not included in the progress report submitted to the audit. | Answers had not been given. | Planned targets should be achieved within the relevant period and all information should be submitted to the audit. |
| (i) | According to the 2022 Action Plan, the Plant Pathology and Microbiology Department has targeted to complete by the end of 2022 the strategy development project to combat white root disease in rubber plantation and the project to introduce Low Intensity Harvesting Systems (LIH). Rs.18.52 million and Rs.6.69 million were allocated respectively. As at 31 December 2022, the physical and financial progress of those projects had not been submitted for audit. But as at 31 December 2022, the physical and financial progress of those projects had not been submitted for audit. | All the targets related to this project till the year 2021 have been met. But in the year 2022, due to non-availability of necessary allocations, it has not been possible to carry out the task of knowledge distribution. | Planned targets should be achieved within the relevant period and all information should be submitted to the audit. |

3.3 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
(a) A regular officer had not been appointed for more than 04 years from the year 2018 to the end of the year under review for the position of Director which is one of the most important positions of the Sri Lanka Rubber Research Board. The Deputy Director Research (Technology) is work as an acting officer in that position.	Recruitment will be done after obtaining an approval to fill the vacancy of the post of Director.	Recruitment for essential posts in the board should be expedited.
(b) The post of Deputy Director (Administration) had been vacant since the year 2018, and despite the fact that it had been taken for more than 04 years, the appointment was not made until the end of the year under review.	Approval had not been given to fill this vacancy.	Recruitment for essential posts in the board should be expedited.
(c) At the end of the year under review, 69 heads of research, chief research officers, senior research officers and research officers had been approved for the research section of the Board, but there was a shortage of 44 research section officers as 5 heads of research sections, 12 chief research officers, 13 senior research officers and 14 research officers. It is 63 percent of the approved number of officers.	Five (05) vacancies of heads of research departments/principal research officers/senior research officers had been approved from these officers.	Recruitment of approved officers should be expedited. Steps should be taken to fill up other vacancies or reconsider the requirement and revise the approved cadre.