

## **Hingurana Sugar Industries Limited - 2018**

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The audit of the operational activities of the Hingurana Sugar Industries Limited for the year ended 31 December 2018 , 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. My comments and observations which I consider should be report to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report .

### **1.2 Responsibility of the Management and Those Charged with Governance for the Financial Statements**

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Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament.

### **2. Report on other legal and regulatory requirements**

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Special provisions are consisted in respect of the requirements appear below in terms of the National Audit Act No. 19 of 2018 and the Companies Act No. 7 of 2007 .

The Board of Director of the Company should ensure that the person who is responsible for preparing the financial statements certify within six months from the date of the Balance Sheet in terms of Section 150 (1) of Companies Act No. 7 of 2007.

## 2.1 Financial Statements

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### Audit Observation

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Although the Financial Statements of the year 2018 should be submitted to the Auditor General within 60 days after the closure of the accounting year As per the Section 6.5.1 of the Department of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements related to the years 2016, 2017 and 2018 had not been presented to the Auditor General even by the date of this report.

### Comments of the Recommendation Management

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Answers have not been given. The necessary actions should be taken to forward the accounts to the Auditor General by the due date as per the circular provisions.

## 2.2 Going Concern

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### Audit Observation

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Even though this Company which was undergone privatization in the year 1993 had been retaken over by the government in 1997 due to unsuccessfulness, since the absence of

### Comments of the Recommendation Management

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Answers have not been given. Since the assets belonging to the Company have already been handed over to the Galoya Plantation Private Company,

any production process from the year 1998 the service of the of the employees had been terminated by paying the compensations to all of them in the year 2001 and the Galoya Plantation Private Company had been established handing over a portion of the lands and buildings belonging to the Factory that had been handed over on 30 year lease. Nine employees had been served for the security of assets and the administrative purpose of the institute in the year 2016 and a temporarily appointed General Manager has been employing on currently. Accordingly, this Company has become dormant.

attention should be drawn to ascertain whether the actions should be taken to wind by settling the transactions of this Company.

**2.3 Lack of Evidence for Audit**

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<b>Evidences not available</b> -----	<b>Comments of the management</b> -----	<b>Recommendation</b> -----
Although it had been informed to submit vouchers, cash book, bank statements etc. relevant to transactions of the year 2018 to audit in writing in several instances, hey were not submitted to audit.	Answers have not been given .	Actions should be taken to provide the requested information and explanations to the Auditor General in terms of the Section 42 of the National Audit Act No. 19 of 2018 .

**3. Operating Review**  
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**3.1 Management Inefficiencies**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
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<p>(a) Lands of 277.73 hectares in extent and factory building relating to that belonging to the Factory had been handed over to the Galoya Plantation Private Limited on 30 year lease in the year 2007. Although, it had been informed to act to prepare a lease agreement and to obtain the approval from the Attorney General it arrangements had not been taken accordingly in terms of the Decisions of the Cabinet of Ministers No. 09/0398/329/003 on 06 March 2009 and on 18 March 2009,</p>	<p>Answers have not been given.</p>	<p>Arrangements should be made to prepare a lease agreement and to obtain the approval of the Attorney General as per the Decision of the Cabinet of Ministers.</p>
<p>(b) Although 11232 acres in extent had been distributed among 4493 farmers with 2.5 acres per each by lease agreements, leases had not been received from those lands and the time of those lease agreements had</p>	<p>Answers have not been given.</p>	<p>Steps should be taken to renew the lease agreement and to charge the relevant leases.</p>

been expired. Accordingly the necessary actions had not been taken to sign new lease agreements and transfer them and to charge the leases.

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| <p>(c) Since the actions had not been taken to perform a physical verification for more than 20 years with regard to the assets and stock that belonged to the Factory, accuracy of assets it had not been able to ascertain the accuracy of the assets.</p>   | <p>Answers have not been given.</p> | <p>A physical verification of the assets should be carried out in order to examine the existence of the assets and the accuracy of them.</p> |
| <p>(d) Unauthorized occupants are resided in 91 quarters out of 273 quarters belonging to the Factory and legal actions had not been taken to remove them and arrangements had not been made to charge the house rent from the other quarters.</p>   | <p>Answers have not been given.</p> | <p>Necessary actions should be taken to remove the unauthorized occupants and to charge the house rent.</p>                                  |
| <p>(e) Due to assets including machinery and equipment, 3 motorcycle and a car belonging to the bottle manufactory of the Narahenpita Office and the machinery and equipment in the Hingurara Factory premises remaining inactive from the year 1997, they were not in a condition to be used and actions had not been taken to dispose them and earn an income to the government.</p> | <p>Answers have not been given.</p> | <p>Necessary actions should be taken to reassess the unusable assets and to dispose them.</p>  |

- (f) It had been informed by the letter dated 27 February 2018 of the Secretary to the Ministry of Industry and Commerce to take actions to obtain government valuation reports on all assets of the Factory and despite it had been given Directives by the Committee On Public Enterprises to take necessary actions to identify assets and responsibilities and to settle them for the winding up the Factory, necessary measures had not been taken up to this date.
- Answers have not been given. Necessary arrangements should be made promptly to act in accordance with the Directives given by the Committee On Public Enterprises.
- (g) Although the assets usable valued at Rs. 222 million that were in the possession of the Higurana Sugar Factory and the stock had been transferred to the Galoya Plantation Pvt. Company, actions had not been taken to remove those assets from the accounts of the Hingurana Sugar Factory.
- Answers have not been given. Actions should be taken to give necessary instructions by the relevant responsible institutions.
- (h) The employees had been removed without taking the required measures to properly handover the assets remained in the Hingurana premises and the Narahenpita Head Office before removing the employees.
- Answers have not been given. The Management should be responsible to hand over the assets that were in the possession of the employees to a person who is responsible before the resignation from their posts.

### 3.2 Staff Administration

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#### **Audit Observation**

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Six employees at the Narahenpita Office and 03 employees at the Higurana Office had been employed until March of 2017 and the service of 5 employees have been removed from the date of 28 February 2017 by the letter issued on 29 March 2017. Only 2 employees have been working by the end of 2018 and only one officer is employed currently.

#### **Comments of the Recommendation Management**

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Answers have not been given.

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Until the winding up transactions of the institution have been settled, required actions should be taken to ensure the safety of the relevant books, documents and assets.