

Sugarcane Research Institute - 2014

The audit of financial statements of the Sugarcane Research Institute for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 19(3) of the Sugarcane Research Act, No.75 of 1981. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sugarcane Research Institute as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) Provisions for Gratuity had not been classified as Current and Non-current Liabilities in the statement of financial position.

- (ii) Instead of being accounted the capital grants amounting to Rs.51,000,000 received from the Treasury as a grant, it had been accounted for as the income of the year and no action had been taken to identify the amortization relating to the assets purchased utilizing those grants and brought to account.

(b) Sri Lanka Public Sector Accounting Standard 02

A sum of Rs.2,617,212 invested in fixed deposits and money received from maturity of Treasury Bills amounting to Rs.31,910,516 had been indicated under cash and cash equivalents without being identified as investment activities.

2.2.2 Accounting Deficiencies

Due to the computation errors receivable from the interest on Treasury Bills and the interest on fixed deposits as at the end of the year had been overstated by Rs.1,232,585 and understated by Rs.588,883 in the accounts respectively.

2.2.3 Unexplained Differences

The Revaluation Reserve amounting to Rs.20,940,000 shown in the financial statements had been shown under the Translation Reserve in the year under review without being separately identified.

2.3 Non –compliance with Laws, Rules Regulations and Management Decisions

Non-compliances with the following laws, rules and regulations were observed.

Reference to Laws, Rules Regulations etc.

Non – compliance

Financial Regulations of the Democratic
Socialist Republic of Sri Lanka

(i) Financial Regulation 1646

Daily running charts and monthly summary reports relating to motor vehicles had not been presented to the Auditor General.

(ii) Financial Regulation 757

The annual boards of survey had not been carried out and the report had not been presented to the Auditor General.

2.4 Accounts Receivable and Payable

The following observations are made.

(a) Even though a sum of Rs.1,385,333 recoverable from a Sugar Company had remained recoverable for over a period of 04 years, it had not been included to the debtors age analysis. Except those debtors, a sum of Rs.2,076,140 for over a period of 03 years and a sum of Rs.381,247 for over a period of 01 year respectively was recoverable from the remaining debtors. Adequate action had not been taken to recover those loan amounts.

(b) Out of the balances of creditors, a sum of Rs.7,895 for over a period of 03 years and a sum of Rs.1,092,469 for over a period of 01 year existed without being settled.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs.6,780,836 as against the deficit of Rs.28,875,134 for the preceding year. As compared with the increase in the operating expenses by Rs.34,456,208 the receipt of Treasury Grants amounting to Rs.112,800,000 and the receipt of Rs.10,000,000 from the Line Ministry for projects had mainly attributed to the improvement in the financial result by Rs.35,655,970 for the year under review as compared with the preceding year.

3.2 Analytical Financial Review

Expenditure on supplies and consumable goods, research and development had increased by 29 per cent and 188 per cent respectively as compared with the preceding year.

3.3 Legal Actions instituted against the Institute

Cases had been filed in the Courts against the Institute by two employees of the Institute who had been dismissed and retired from the service.

4. Operating Review

4.1 Performance

Even though provisions amounting to Rs.38,800,000 had been made in the year under review for 06 projects for infrastructure facilities and development activities, 02 projects amounting to Rs.35,400,000 had not been implemented during the year.

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though the Institute had included 02 research projects in the Action Plan for introduction of at least two new varieties of sugarcane annually, it had failed to introduce any variety of sugarcane whatsoever in the year 2013 and in the year under review. Provisions amounting to Rs. 25.69 million and Rs. 35.6 million respectively had been made for those projects in the Action Plan. The expenditure incurred for the research activities of introducing varieties of sugarcane in the year 2013 had not been brought to account so as to enable to identify them separately and a sum of Rs.24.84 million had been spent for the research activities in the year under review.
- (b) Provisions amounting to Rs.1.43 million and Rs.0.38 million had been made respectively in the Action Plan for invention of an Applicator used for manuring under the Programme No.MT/01/14 and introduction of a Mini Harvesting Machine for harvesting local sugarcane under the Programme No.MT/03/14 by the Mechanization Technology Division, no action whatsoever had been taken in the year under review in that connection.
- (c) According to the orders made, 10 cents of Cess should be charged per every kilogram of sugar manufactured by the local sugar manufacturers. As such, a Cess amounting to Rs.3,678,955 was receivable for the year under review according to the computation made in audit, based on the information received relating to several months in respect of quantities manufactured in three local sugar manufacturing institutions. However, the Research Institute had not taken action to compute the Cess by obtaining information in respect of sugar manufactured by those institutions.
- (d) Even though 25 cents Cess should be charged per every kilogram of sugar from the importers of sugar, a Cess amounting to Rs.628,380 receivable for 2,513,520 kg of sugar imported by 08 institutions had not been recovered.

4.3 Transactions of Contentious Nature

Four motor vehicles owned by the Institute had been sold for Rs.3,050,000 on 20 November 2014 by entering into an agreement with a State Company and according to the agreement, it had been agreed to transfer the ownership of the motor vehicles after obtaining a sum of Rs.1 million and to recover the remaining amount of Rs.2,050,000 within a year. Even though all the vehicles had been handed over to the Company after obtaining a sum of Rs.100,000 on 14 November 2014 contrary to the agreement, out of them only 03 motor vehicles had been taken back.

4.4 Personnel Administration

The approved cadre and the actual cadre of the Institute amounted to 193 and 173 respectively. Vacancies existed in 07, 01 and 09 posts in the senior, tertiary and secondary levels required for operating activities respectively and 03 at primary level posts.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Collection of Cess Income
- (c) Utilization of Motor Vehicles