

## **Hingurana Sugar Industries Limited – 2015**

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The audit of financial statements of the Hingurana Sugar Industries Limited for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the income and expenditure statement and the cash flow statement for the year then ended 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. My comments and observations which I consider should be published with the Annual Report of the Industries appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka 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**

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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 Auditing 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Industries’ 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 Industries’ 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 financial statements.

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 Disclaimer of Opinion**

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As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet, income and expenditure statement, and cash flow statement.

## **2. Financial Statements**

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### **2.1 Disclaimer of Opinion**

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Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **2.2. Comments on Financial Statements**

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#### **2.2.1 Going Concern**

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Even though this institution which was privatized in the year 1993 had been vested with the Government in the year 1997, operating activities had not been carried out due to the financial crisis. According to a decision taken by the Government in the year 2007, certain assets therein had been transferred to a Government Company named Galoya Plantation Company (Pvt) Limited. As such, the Higurana Sugar Industries Limited had become a nominal institution. This institution was not carrying out any operating activity despite the payment of salaries to 09 employees under the Government sponsorship and the existing assets had become unserviceable due to the dilapidated condition. As such, the going concern of this institution is uncertain.

#### **2.2.2 Sri Lanka Accounting Standards**

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The following observations are made.

(a) Sri Lanka Accounting Standard 01

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Statement of changes in equity and significant accounting policies had not been included in the financial statements presented by the Industries.

(b) Sri Lanka Accounting Standard 16

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Basis and the policy of depreciation pertaining to 21 categories of fixed assets included in the balance of property, plant and equipment amounting to Rs.225,853,299 had not been disclosed in the financial statements. Thus, the accuracy of computation of depreciation could not be confirmed.

(c) Sri Lanka Accounting Standard 19

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Even though provision for employees' gratuity should be made annually and it should be shown in the statement of financial position, provision for gratuity had not been made in respect of 10 employees for the year 2015.

(d) Sri Lanka Accounting Standard 36

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Provision for doubtful debts had not been made for the sum of Rs.110,794,557 shown in the financial statements as receivables from the former Director of the Industries.

(e) Sri Lanka Accounting Standard 40

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The factory, office, quarters and the lands in Hingurana belonging to the Higurana Sugar Industries Limited had been leased out to the Galoya Plantation Company (Pvt) Limited for 30 years and information on the amount of Rs.516 million comprising the value of aforesaid property amounting to Rs.222 million and tax value of Rs.294 million had not been separately disclosed in the statement of financial position. Further, such rentals had not been obtained from the Galoya Plantation Company (Pvt) Limited.

**2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) The Ledger Accounts and Journal Vouchers pertaining to assets, liabilities and income had not been prepared.
- (b) Action had not been taken to identify and settle the credit balance of Suspense Account amounting to Rs.18,381,212 shown continuously in the financial statements over several years.

**2.2.3 Lack of Evidence for Audit**

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The evidence indicated against following items of account was not made available to audit and as such those could not be satisfactorily vouched or accepted.

<b>Item</b>	<b>Value Rs.</b>	<b>Evidence not made available</b>
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Loans payable to State Institutions	417,083,873	] Letters of Confirmation of Balances
Payables to an Insurance Company	1,462,771	
Trade Creditors and other Creditors	83,742,852	
Building Funds Debtors	4,862,454	
Other Debtors	20,549,122	
Deposits and Prepayment Balances	5,000,958	
Fixed Assets	302,016	] Registers of Physical Verification
Consumables Stock	225,853,299	
	31,297,378	

**2.3 Accounts Receivable**

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Loans amounting to Rs.82,151,409 granted to the farmers for the cultivation of sugar cane had not been recovered since the year 1997.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.1,508,406 as against the deficit of Rs. 3,895,191 for the preceding year, thus indicating an improvement of Rs. 5,403,597 in the financial result as compared with the preceding year. Increase in the Receipts from the Ministry in the year under review by Rs.3,187,323 as compared with the preceding year and the accounting of a sum of Rs.5,889,385 receivable from hiring the chains had mainly impacted the improvement in the financial result.

An analysis of the financial results of the year under review and four preceding years had revealed a surplus in the year 2011 and a deficit from the year 2012 to 2014 whereas it had become a surplus in the year under review. However, in considering the employees remuneration and depreciation for non-current assets, the positive contribution in the year 2011 had deteriorated in to a negative value by the year 2013 and it had again improved positively in the years 2014 and 2015.

### **4. Operating Review**

#### **4.1 Management Activities**

The following observations are made.

- (a) The extent of lands belonging to the Company stood at 7,465 hectares out of which 4,917 hectares had been given to the farmers for cultivation and 278 hectares and 2,270 hectares were under the administration of Galoya Sugar Company and the Company respectively. No income whatsoever had been received by the Industries from the lands leased out. According to a decision of the Cabinet of Ministers taken in the year 1990, the sugar factory at Hingurana had become an independent institution named Hingurana Sugar Industries Limited. This company was privatized in the year 1993 while the administrative party had left this company in the year 1996. Even though this company including the liabilities had been re-vested with the Government by the Gazette Notification No.959/10 of 24 January 1997, no manufacturing activity whatsoever had been carried out.
- (b) Certain plots of lands at Hingurana and lands and buildings in Colombo belonging to the Hingurana Sugar Industries Limited had been mortgaged to the People's Bank by the Private Company and certain lands and building at Hingurana had been mortgaged for a sum of Rs.280 million by the Hingurana Sugar Industries Limited as well. A sum of Rs.320 million pertaining to the property mortgaged by the Hingurana Sugar Industries Limited had been paid to the Bank by the Treasury and that property had been transferred to the Ministry of State Resources and Enterprise Development.
- (c) Lands 277.73 hectares in extent and relevant factory buildings belonging to the Hingurana Sugar Industries Limited had been given on 30 year lease to the Galoya Plantation Company (Pvt) Limited in the year 2007. The share ownership of the

Government amounted to Rs.516 million comprising the sum of Rs.294 million being the lease for the said period and Rs.222 million being the value of movable assets as valued by the Department of Valuation. An agreement entered into with the Galoya Plantation Company (Pvt) Limited on this lease value had not been made available by the institution.

- (d) Even though the Galoya Plantation Company (Pvt) Limited had commenced its manufacturing process on 16 June 2007, the relevant assets transferred to that company had been assessed only in the year 2009. Further, the Management Agreement with regard to the lease and the Treasury Agreement on behalf of shareholders agreement had been signed by the General Treasury only in the year 2009. Nevertheless, the copies of these agreements were not available with the Hingurana Sugar Industries Limited.

## 5. Systems and Controls

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

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	Non-maintenance of accounting books and registers properly.
(b) Debtor and Creditor Balances	Failure to obtain confirmation of the balances.
(c) Fixed Assets Control	Failure to identify and record the assets belonging to the Industries