

## **Sugarcane Research Institute – 2016**

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The audit of financial statements of the Sugarcane Research Institute for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity 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**

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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**

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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 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**

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 2016 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

- (a) Even though the management shall use its judgement in developing and applying an Accounting Policy in the absence of a SLPSAS that specifically applies to a transaction, other event or condition, the Accounting Policy followed by the Institution relating to bringing to account the biological assets amounting to Rs.252,695 had not been disclosed.
- (b) A provision had not been made for the contingent liabilities remaining as at that date of the statement of financial position by considering the current position in two lawsuits relating to the Institution in terms of the Sri Lanka Public Sector Accounting Standard 08.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The interest rate of Rs.385,333 for the loans recoverable from the Kantale Sugar Company, brought to account by an error in the year 2013 had not been rectified even in the year under review.
- (b) The building valued at Rs.250,000 which had completed construction activities had been indicated under work-in-progress from about a period of 04 years without taking action to capitalize it.
- (c) The expenditure of the year had been understated by that amount due to bringing to account the amount of Rs.300,000 of security deposits of 2 months paid for the Colombo Office as an expenditure and the receivable security deposits had been understated by that amount.

- (d) The surplus of the year had been overstated and the capital grants had been understated by that amount in the accounts due to the capital grants amounting to Rs.50,000,000 received for the purchase of equipment from the Ministry in the year under review being brought to account as revenue.

### **2.3 Accounts Receivable**

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Action had not been taken to recover a sum of Rs.1,164,231 receivable from the Sewanagala Sugar Factory and a sum of Rs.172,834 receivable from the Lanka Sugar (Private) Limited from a period of 5 years and a sum of Rs.1,000,000 receivable from the Kantale Sugar Company over 5 years.

### **2.4 Non –compliance with Laws, Rules Regulations and Management Decisions**

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The following non- compliances with laws, rules and regulations were observed.

| <b>Reference to Laws, Rules and Non – compliance Regulations</b> |  |
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Public Enterprises Circular No.PED/12 of  
02 June 2003

(a) Section 9.12

Even though the approval of the Treasury should be obtained in implementing any welfare programme, expenditure amounting to Rs.11,346,000 had been incurred in the year under review for the reimbursement of the medical bills of the employees without obtaining the approval in such a manner by the Institute.

(b) Section 9.14.2

The approval of the Department of Public Enterprises had not been obtained for the set of rules prepared and used for the execution of the functions of the Institute. (Functional Organizational Manual)

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year under review had resulted in a surplus of Rs.88,198,790 as compared with the corresponding surplus of Rs.56,438,274 for the preceding year, thus indicating an improvement of Rs.31,760,516 in the financial result in the year under review as compared with the preceding year. The increase of the operating income by a sum of Rs.33,706,755 had been the main reason for this improvement.

In considering financial results of 04 preceding years and in the year under review, even though a deficit had been indicated in the years 2012 and 2013, a surplus had been indicated in the years 2014,2015 and 2016. However, in adjusting personnel emoluments, depreciation for fixed assets and taxes paid to the government again, the contribution of the Institute amounting to Rs.105,963,090 had been a sum of Rs.312,417,371 in the year under review.

### **3.2 Legal Action instituted against or by the Institute**

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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**

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### **4.1 Performance**

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Even though the objectives of the Institute in terms of the Sugarcane Research Institute Act No.75 of 1981 are carrying out research on the cultivation and the production of sugarcane, functions such as introducing new varieties of sugarcane, recommending fertilizer for cultivation activities, suppression of pests and diseases and introducing necessary machines for the mechanization of agriculture are being carried out by the Institute.

- (a) Even though about 33 years had lapsed after the establishment of the Sugarcane Research Institute, the local sugar production remained at a low level of 9 per cent due to carrying out functions such as introducing new sugarcane varieties, control of diseases, introducing methodologies of sugarcane cultivation and introducing necessary methodologies to increase the percentage of extracting sugar being carried out in a slow manner.
- (b) Action had not been taken to provide a sufficient contribution for the provision of quality sugarcane yield by introducing production machines with modern technology as a remedy for the shortage of the supply of labour remaining in the carving of the sugarcane harvest and raising awareness among farmers on their usage.
- (c) Seventeen research projects out of 19 research projects which expected a physical progress of 100 per cent in the year under review had achieved a low level of physical progress ranging from 5 per cent to 75 per cent. Moreover, there was no physical progress in the projects of CI/9/16 Preliminary evaluation of sugarcane varieties and PT/03/16 Testing sugarcane varieties for jiggery production.
- (d) Sugarcane nurseries and research activities had been carried out without acquiring the legal right of the lands of 5.4 hectares in extent of the Ensal Estate in Deniyaya, 200 hectares in extent in Kantale and 12 hectares in extent in Kilinochchi from several years in those lands by the Research Institute and a sum of Rs.20,350,242 had been spent for research and development activities even in the year under review. However, only 8 acres in extent in the land in Kilinochchi and 35 hectares in extent in the land in Kantale had been cultivated by the end of the year under review.

## **4.2 Management Activities**

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The following observations are made.

- (a) A building belonging to the Institute had been given on lease basis to an external party for maintaining a cafeteria from the year 2004 and tenders had been called every two years without calling for tenders annually. Further, even a fee had not been charged by the Institute for the water used in this cafeteria.
- (b) Even though a Cess should be charged on the amount of sugar manufactured by local sugar manufacturing institutions in terms of Section 18 of the Sugarcane Research Institute Act No.75 of 1981, a Cess amounting to Rs.1,077,100 had not been charged from the Gal oya Sugar Factory.
- (c) There are 27 vehicles belonging to the reserve of the Institute and even though it had been informed that 04 vehicles out of them are not in a running condition, they had not been confiscated.

## **4.3 Transactions of Contentious Nature**

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A Defender vehicle had been purchased without a proper requirement by the Sugarcane Research Institute in the year 2000 and this vehicle had been repaired by incurring an excessive expenditure of Rs.3,035,070 from the year 2010 to the year 2016 despite being recommended by the Engineer to sell, on repairing this vehicle not being fruitful, in the year 2010.

## **4.4 Uneconomic Transactions**

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Even though it had been informed that a building ranging from 2,000 square feet to 3,000 square feet is required according to the relevant paper advertisement to obtain a building instead of the building used in the preceding year for a monthly rent of Rs.85,000 for the Colombo Office, a building of 5,000 square feet had been obtained for a rent of Rs.150,000 monthly and a sum of Rs.2,100,000 had been paid at once for it before signing the lease agreement in the year under review.

## **4.5 Personnel Administration**

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The following observations are made.

- (a) The approved cadre of the Institute being 193 and the actual cadre being 176, 17 vacancies remained for 13 posts.
- (b) It had been difficult to carry out the research activities successfully, the main objective of the Institute, on posts such as Chief Research Officer, Chief Technical Transmission Officer, Senior Research Officer, Senior Technical Transmission Officer, Technical Officer remaining vacant.

**5. Systems and Controls**  
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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.

**Areas of Systems and Controls**  
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**Observations**  
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(a) Personnel Administration

Not getting approved the Functional Organizational Manual for carrying out the administrative activities of the Institute.

(b) Collection of income

Not taking action to calculate the Cess income by obtaining accurate information.

(c) Recovery of loans

Not taking action to recover the receivable balances which remain not recovered long term.