

## **Lanka Sugar Company (Private ) Ltd – 2017**

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The audit of performance of the Lanka Sugar Company (Private ) Ltd for the year ended 31 December 2017 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. The financial statements for the year 2017 had not been presented even by the date of this report. My observations on the performance of the Commission in the year under review which I consider should be presented 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 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements of the Company 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.

## **2. Financial Statements**

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### **2.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003, the financial statements and draft annual report should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements and draft annual report had not been presented to the Auditor General even by 19 September 2018.

### **2.2 Maintenance of Books of Accounts and Registers**

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Even though the activities of the Company had been maintained continuously, the books of accounts and registers relating to the year under review had not been completed and presented to the audit.

### **2.3 Existence of Assets and Liabilities**

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Particulars of assets, liabilities, income and expenditure shown in the last financial statements prepared as at 31 December 2016 by the Company are given below.

Assets -----	Value ----- Rs.
Non-current Assets	2,517,816,106
Current Assets	5,209,490,746
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Total Assets	7,727,306,852
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Liabilities -----	
Current Liabilities	2,397,821,256
Non-current Liabilities	531,113,782
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Total Liabilities	2,928,935,038
Total Assets/ Equity	4,798,371,814
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Total equity and Liabilities	7,727,306,852
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Total Income	7,799,193,805
Total Expenditure	6,926,120,414
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Surplus	873,073,391
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#### **Non-compliance with Laws, Rules Regulations and Management Decisions**

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The following non-compliances were observed.

<b>Reference to Laws Rules, Regulations and Management Decisions</b> -----	<b>Non-compliance</b> -----
Companies Act No.07 of 2007 (i) Section 131	An Annual Report should be handed over to the Registrar of the Company within 30 working days from the Annual General Meeting of the Company. However, the Company had not prepared an Annual Report in the year under review.
(ii) Section 133	The board of a company shall call an annual general meeting of shareholders to be held once in each calendar year, not later than six months after the balance sheet date of the company ; and not later than fifteen months after the previous annual general meeting. However, the Company had not conducted such a meeting after the year 2014.

### 3. **Operating Review**

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#### 3.1 **Function and Review**

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The Pelwatta Sugar Company and the Sevenagala Sugar Company are implemented as two operating units of the Lanka Sugar Company (Private) Ltd which is established under Rehabilitation of Under-utilized Assets Act, No.43 dated 11 August 2011. The following observations are made in respect of the main operating activities of this Company.

- (a) Even though the total land to be able to cultivate sugarcane is 4215 hectares in extent , the total land which the sugarcane cultivated in the Company by the year 2017 was 3504 hectares in extent. Accordingly, although lands adequate for the obtaining of sugarcane supply to maintain the operations of the factory with a maximum capacity is owned by the Company ,the Company had not taken action to increase the production of the factory by cultivating the said lands.
- (b) In the consideration of the 06 years period from the year 2012 to the year 2017 of the Sevanagala Sugar Company, although the sugarcane productivity per hectare in the year 2016 was 86 metric tons , it had been decreased up to 69 metric tons by the year 2017. However, the Company had not taken action to improve the said condition.
- (c) The quantity of sugar existed in the sugarcane sticks used for the produce of sugar had been decreased from the year 2012 to the year 2017 from 11.23 per cent up to 7.95 per cent per one metric ton of sugar cane , and 7.95 per cent to 7.62 per cent in Pelwatta Sugar Company and Sevanagala Sugar Company respectively due to most time spent for transportation, factory breakdowns, refuse and waste in sugarcane sticks . Similarly, the percentage of extraction of sugar from that sugarcane sticks had been decreased from the year 2012 to the year 2017 from 8.95 per cent to 7.3 per cent and from 8.01 per cent to 7.67 per cent in the Pelwatta Sugar Company and Sevanagala Sugar Company respectively. However, the Company had not taken action to avoid these conditions.
- (d) As a result of lack of supplying sugarcane , 35 per cent out of 837,500 sugarcane metric tons which is the maximum machinery capacity of the Company could not be used in the year under review. As such, the sugar production of the Company in the previous year was 51,422 metric tons but it had been decreased up to 42,841 metric tons by 17 per cent by the year under review.
- (e) Produce of molasses which is the main raw material of the produce of ethanol had been decreased due to decrease of produce of sugar in the year under review and problems in the storage of produced ethanol spirits had been arisen as the spirit stores were filled more time period due to decrease of sale of ethanol . Although produce of ethanol had been decreased from 11,917,279 bulk litres up to 7,045,228 bulk litres by 41 per cent as compared with the previous year , action had not been taken by the Company to avoid the said condition.

- (f) As a result of lack of producing sugar , the power produced from the residue of bagasse had been decreased from 16,346 megawatt hours to 12,534 megawatt hours by the year under review as compared with the preceding year. As such ,the Company had to incur an additional cost for the alternate powers in the year under review, the Company had not taken action to manage the said condition.
- (g) Even though the production activities had been at a weak level due to 29 tractors out of 43 tractors belonging to the Land Development Division were remained more than 06 months in the agricultural workshop for the repairing activities at the end of the year under review ,the Company had not taken action to repair those tractors immediately and use for the land development activities.
- (h) Due to the management had not taken action to supply machineries required for the preparation of cultivated lands , the income lost to the Company amounted to Rs.409,950 per hectare as the calculations made by the land development division of the institution.
- (i) Even though the traditional methodology of sugarcane harvesting based on the observations given on the percentage of extraction of sugar by sending the sugarcane samples from each field in the selection of fields for harvesting sugarcane harvest , the said traditional methodology had been suspended by the former General Manager of the Company without taking approval of the Board of Directors in the harvesting of sugarcane in Maha Season of the year 2017 in Pelwatta Sugar Company. Accordingly, loss of income had been certified by the manager of the central estate division as Rs.159,559,000.
- (k) Sugarcane crushing activities had been delayed by a month due to the maintenance activities had not been completed up to the end of April 2018 which should be completed before 31 March 2018 as a result of the delay purchasing of the equipment by the purchasing division which were applied with a view to carry out the said maintaining activities at the proper time for carry out the operating activities continuously by the Pelwatta Sugar Corporation which is older than 30 years.

### 3.2 Management Activities

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The following observations are made.

- (a) Out of the total investigations reported to the Investigation Division in the Pelwatta Sugar Corporation in the year under review , only 36 incidents had been investigated. The Company had not taken action to manage the said condition by recruiting adequate Investigation Officers.
- (b) Information on any file relating to the cases in the Company reported up to the end of the year under review had not been available in the Legal Division and the management had not taken action to organize the Legal Division properly by assigning duties properly to the officer who recruited during the year under review

- (c) The Project for produce Carbon dioxide in the Sevanagala Sugar Company had been vested to a Private Company in the year 2014 and the land, electricity, water and other infrastructure required for that purpose had been supplied for free by the Sugar Company. However, a lower price such as Rs.25 for one kilogram of Carbon dioxide had been paid to the Sugar Company. Accordingly, the Company had given opportunity to a Private Company to gain profits up to 20 years by utilizing the resources of the Company. The management had not taken action to increase the income of the Company by revising the said price.
- (d) A contract amounting to Rs.27,067,812 had been granted for the fixing of machines relating to purify the wastewater in the Sugar Company Sevanagala. However, it should have been completed by May 2014, the management had not taken action to complete even by the end of the year under review. As a result of that, the Company had failed to obtain the Environmental Protection License for the factory.
- (e) A surplus of fuel of 409 litres was existed as at 23 January 2018 thus in the issuing of diesel by the fuel dispensing pump-electric which had been purchased at a cost of Rs.479,808 in the year under review ,it is issued lesser than the volume issued. The Company had not taken action to repair or supply a new fuel supply machine just after one year from the purchasing.
- (f) Twenty two Oxygen cylinders out of 66 cylinders kept in the main stores had been misplaced and the Company had not taken action to recover the loss from the officers responsible by investigating thereon.
- (g) Ten extra Acetylene cylinders were remained in the main stores of the Sevanagala Sugar Company. Although the said irregularities had been occurred due to failure to maintain the stores records by the Company, the Company had not taken action to manage the said condition.
- (h) The loss incurred to the Company amounting to Rs.78,185 due to the misplacement of the Acetylene gas in 26 Acetylene cylinders during the year under review due the weak internal control methods of the Sevanagala Sugar Company. The management had not taken action to identify the officers responsible and recover the loss .
- (i) The activities such as the meetings of the Board of Directors, maintenance of records are described as the duties of the Secretary to the Company by “Schedule G” of the Guideline for Association Control. However, the said duties had not been assigned to the Secretary to the Company and another officer had been engaged for the execution of the said activities.

### **3.3 Idle and Underutilized Assets**

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The crane purchased at a value of Rs.128,910,000 under leasing facility in the year 2013 was at an idle condition from the date of purchase as it had not been established in the factory as agreed with the Sugar Company by the supplier. The value of lease instalments and interest paid by the Company in the year under review for the said machine amounted to Rs.21,734,748. The total instalment with the interest payable further up to the ensuing 02 years amounting to Rs.27,168,660 and as such it was observed that as an idle expenditure.

### **3.4 Staff Administration**

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The Company had not taken action to identify a staff clearly by approving a scheme of recruitment by the Department of Management Services. Nevertheless, the said appointments had been extended again by recruiting 8 officers of management level in the Head Office of the Company on contract basis .

## **4. Accountability and Good Governance**

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### **4.1 Audit Committee**

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Despite an Audit Committee had been appointed by the Company , the said Committee had not been given a guidance to the Board of Directors in the activities such as preparation of financial statements according to the Sri Lanka Accounting Standards, conducting Annual General Meetings and sending Annual Reports to the Registrar General of the Company . As such, the said activities had not been fulfilled at the proper time.

### **4.2 Environmental Audit**

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The waste water treatment unit of the factory had not been completed even by the end of the year under review and the Company had not taken action to minimize the damage caused to the environment by releasing waste water into the environment.

### **4.3 Unresolved Audit Paragraphs**

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It had been failure to gain profit commensurable to the cost incurred for the social club and guest house repaired by spending an expenditure amounting to Rs.28,163,089 as per the Paragraph 4.1(a) (i) of the Auditor General's Report of 2016.

## **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 Company from time to time. Special attention is needed in respect of the following areas of control.

**Area of Systems and Observations**  
**Control**

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- (a) Human Resources Management Recruitment of a definite staff by preparing approved scheme of recruitment.
- (b) Procurement Control Procurement activities carry out by following the instructions of the Procurement Guideline.