

Sugar Cane Research Institute – 2017

The audit of financial statements of the Sugar Cane Research Institute for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Sugar Cane 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 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 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 Sugar Cane Research Institute as at 31 December 2017 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

Sri Lanka Public Sector Accounting Standard 01

According to the Paragraph 48 of the standard, assets and liabilities, and revenue and expenses shall not be offset. However, the minus balances amounting to Rs.26,634 and Rs.3,856,184 which were remained in 11 Assets and Liabilities Accounts as at the end of the year were offset and had been shown in the statement of financial position as Rs.44,387,389 and Rs.20,686,978 respectively as the balances receivable and payable at the end of the year under review.

2.2.2 Accounting Policies

According to the accounting policy of the Institute, the treasury bills should be shown in the financial statements to the realized value . However, according to the confirmation of balances received by the bank as at the end of the year under review ,the realized value of treasury bills amounted to Rs.92,024,500 , it had been shown as Rs.89,122,043 according to the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the assets such as Lysimeter system, data loggers, air conditioners, computers valued at Rs.15,205,107 received on credit basis during the period from May to December in the year under review had been included in the Register of Fixed Assets, the relevant assets had not been included in accounts.

- (b) Even though according to the computation of audit in the year under review that the interest income of treasury bills amounted to Rs.10,305,506, the interest income of treasury bills had been understated by Rs.1,007,563 due to it had been shown as Rs.9,297,943 in the financial statements.
- (c) Even though a sum of Rs.250,000 had been shown under the Work-in- Progress Account from the year 2012 due to an accounting error, action had not been taken to rectify it by identifying the accurate accounts relating to that.
- (d) A sum amounting to Rs.90,000 which had been paid as security deposits in the renting out of a building in the year under review had been accounted as an expenditure.
- (e) The value of the land of 03 acres and 35 perches in extent belonging to the Institute had not been assessed and brought to accounts.

2.3 Accounts Receivable

Even though it was exceeded more than a period of 5 years that a sum of Rs.1,063,131 receivable for the sugar cane sticks from the Sugar Factory at Sevanagala, a sum of Rs.86,780 receivable for the molasses supplied to the Lanka Sugar Corporation in the year 2014, a sum of Rs.1,000,000 receivable from the Sugar Corporation at Kantale , action had not been taken to recover by the end of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year under review had resulted in a deficit of Rs.79,402,411 as against the surplus of Rs.88,198,790 thus indicating a deterioration of Rs.167,601,201 in the financial results for the preceding year. Decrease in Government grants by Rs.80,170,000 and increase in foreign travelling expenses by Rs.6,834,091 and increase in agreed services by Rs.23,996,310 had been the main reasons for the above deterioration.

In the analysis of the financial results of the year under review and 04 preceding years, it had been indicated that a financial deficit amounting to Rs.28,730,918 in the year 2013. Even though the surplus amounted to Rs.6,780,836 in the year 2014 had been increased gradually ,it had become a deficit of Rs.79,402,411 in the year under review .However, after making adjustments to personnel emoluments, depreciation on non-current assets, the contribution of Rs.96,000,245 had been continuously increased in the year 2013 and become Rs.312,417,371 in the year 2016 and it had been deteriorated up to Rs.155,645,764 in the year 2017.

3.2 Legal Cases initiated against the Institute or by the Institute

A case had been filed in the Courts against the Institute by an employee of the Institute who had been dismissed from service.

4 Operating Review

4.1 Performance

4.1.1 Performance and Review

The following observations are made.

- (a) Even though the main objective of the Sugar Cane Research Institute is to Introduce suitable sugarcane varieties, control diseases, sugarcane crop management practices and popularizing the methodologies for increase sugar processing percentage among the farmers , the contribution given for the increase of the local sugar productivity by the Institute had been decreased due to failure to fulfill that objective successfully even about 37 years had been elapsed after establishment of the Institute. Local sugar production was 9 per cent out of the total sugar requirement from the year 2013 and it had been the same in the year under review as well.
- (b) As a remedy for the deficiency of the labour supply in sugarcane harvesting ,the Institute had not taken action to gain a quality sugarcane harvest by introducing modern production machinery and making awareness of the farmers on using those machinery .
- (c) Forty sugarcane varieties had been propagated for research purposes in a land of 15,743 hectares in extent during the period from the year 1986 to the year 2017. Twenty three sugarcane varieties of that had been introduced and out of that 16 varieties had been cultivated in a small land of 304 hectares in extent.
- (d) At present, sugar cane variety called SL 96128 which was introduced in the year 2012 had been propagated about 58 per cent out of the land which was sugarcane cultivated. Nevertheless, propagation of those varieties had been at a low level due to the attitudes of the farmers , lack of resistance for diseases and pesticides for the sugarcane varieties introduced recently.
- (e) Even though the awareness programmes and workshops on training relating to diseases and pesticides had been conducted , it had been failure to control the diseases such as Leaf Scald disease and Eye Spot disease existed in the sugar cane cultivation.

4.2 Management Activities

The following observations are made.

- (a) In terms of Section 18 of the Sugarcane Research Act, No.75 of 1981, there shall be charged, levied and paid a cess at a rate of 10 cents per one kilogram on sugar produced by the local sugar production Institute by the Institute. However, action had not been taken to charge this cess levy from the sugar factories at Sevanagala and Galoya in the year under review ,a sum of Rs.2,794,864 had not been charged.
- (b) Action had not been taken to recover the distress loan amounting to Rs.264,988 recovered from 05 officers from the year 2016 due to left the service and deceased.
- (c) A medical scheme had been implemented for the employees of the Institute from the year 1984 without a Treasury approval and an expense amounting to Rs.7,755,875 had been incurred for the reimbursement of medical bills in the year under review.

4.3 Cadre Administration

The following observations are made.

- (a) As the approved cadre of the Institute was 193 and the actual cadre was 177 , 16 vacancies were existed for 11 posts.
- (b) There had been a barrier to achieve the main objectives of the Institute due to action not taken to complete the posts such as Chief Research Officer, Chief Technical Transmission Officer, Senior Research Officer, Senior Technical Transmission Officer, Technical officer.

5. Sustainable Development

5.1 Achievement of the Sustainable Development Goals

All Government institution should follow the Sustainable Development Goals Agenda 2030 of the United Nations and the Sugar Cane Research Institute had not been aware how to come into operation relating to the duties come under the new scope of the Institute relating to the year under review .

The following observations are made in this connection.

- (a) As a result of the Sugar Cane Research Institute had not aware on the Agenda 2030 as mentioned above, action had not been taken to identify the sustainable development goals and targets relating to duties of the Institute and the landmarks for reach the targets as well as the indicators for reaching targets.

- (b) The functions identified by the Institute for reaching sustainable development goals had not been included in the Annual Action Plan and the financial provisions required for the execution of that functions had not been included in the Annual Budget.
- (c) Even though existence of an accurate data base is essential for measuring of the accurate performance of certain activity, the Institution had not taken action to create an accurate data base for the measuring of achieving the Sustainable Development Goals.

6. Accountability and Good Governance

6.1 Tabling of Annual Reports

The Institute had not tabled the Annual Reports relating to the year 2016.

7. Systems and Controls

Weaknesses 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.

Area of System and Control -----	Observations -----
(a) Cadre Administration	Failure to approve the Procedure Rules Code required for the execution of the administrative activities of the Institute
(b) Collecting Revenue	Action had not been taken to compute the revenue of cess levy by obtaining accurate information.
(c) Balances Receivable	Action had not been taken to recover the balances receivable which were un recovered for a long period.