

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Institute’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Comments on Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

| <b>Non Compliance</b>  | <b>Management Comment</b>  | <b>Recommendation</b>  |
|--|--|--|
| (a) Even though the property plant and equipment should be revalued in every three or five years according to paragraph 47 of the Standard No.07, the land extended 03 acres and 35 perches in Hanthana Uduwela had taken over at a cost of Rs.65,000 on 04 July 1997 had not been revalued and accounted from the date of acquisition to the year under review. | As stated in the Standard No.07, all assets were revalued in the year 2015 and it was informed that action will be taken to revalue the assets again in the year 2020 and take in to the accounts. I am also stated that action will be taken to obtain the revaluation value of the land at Uduwela in Hanthana into the statements of account. | According to the Standard, the lands of the Institute should be revalued and shown in the financial statements.      |
| (b) Even though depreciation of an asset begins when it is available for use according to paragraph 69 of the Standard No.07, a sum of Rs.2,501,216 had not been depreciated for fixed assets valued at  | The depreciation policy from the inception of the institute is not to depreciate in the year under review and depreciate in the year of sale / disposal. I wish to   | According to the standard, depreciation of assets should be carried out from the date of use, so depreciation should |

Rs.16,570,504 had purchased during the year under review. inform you that this policy be carried out expected to be changed by accordingly. a decision of the Board of Directors in the future.

- (c) Even though in order to calculate Employee Benefit Gratuity, the Actuarial Valuation Method should be implemented periodically in accordance with Standard No. 19, gratuity allocation as at 31 December 2018 had been shown as Rs.69,633,685 in the financial statements without such actuarial valuation. I wish to inform that the Employee Benefit Actuarial Valuation Method Gratuity should be was not followed due to the calculated based on payments were made Actuarial Valuation according to Section 6(2)b Method and shown in of the Chapter 02 of the the financial statements. Gratuity Payment Act No.12 of 1983.

### 1.5.2 Accounting Deficiencies

The following accounting deficiencies were observed.

| Audit Issue<br>-----  | Management Comments<br>-----   | Recommendation<br>-----  |
|---|--|--|
| (a) Even though the Treasury Bill interest income receivable for the year under review was Rs.1,097,307, the Treasury Bill interest income receivable had been understated by Rs.148,222 due to shown as Rs.949,085 in the financial statements.  | I wish to inform that steps will be taken to rectify the error in understatement of Treasury Bill interest by Rs.148,222 from year 2019 accounts.  | Steps should be taken to calculate the interest income receivable accurately and record in accounts in accrual basis.  |
| (b) The capital expenditure amounting to Rs.8,080,336 incurred for assets such as Tube Well pumping station, obtaining electricity supply to the hot water treatment unit, construction of elephant fence relating to the Kantale project had not been disclosed as assets in the financial statement during the year under review. | The Kantale project is a project operating under Ministry funds. I would like to inform that all funds incur for this project will be debited directly to that project. Accordingly, all expenses related to the project had been debited to the Kanthale account this year too. | Action should be taken to account for the assets which were acquired through the capital expenditure of the Kantale project because that belongs to the Institute. |

### 1.5.3 Documentary Evidences not made available for Audit

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| <b>Audit Issue</b><br>-----  | <b>Management Comments</b><br>-----   | <b>Recommendation</b><br>-----  |
|--|---|---|
| Balance confirmation letters were not submitted to the audit to verify the balance of the miscellaneous debtors of Rs.4,557,775 and miscellaneous creditors of Rs.2,952,295 at the end of the year under review. | I have stated that relevant letters have been sent to those institutions along with a copy to the Government Audit for confirming the balance of the debtor and several institutions out of that had not sent letters confirming the balance. | Action should be taken to inform to the relevant parties to confirm the balances directly to the audit. |

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Receivables

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| <b>Audit Issue</b><br>-----   | <b>Management Comments</b><br>-----  | <b>Recommendation</b><br>-----                                   |
|---|--|--|
| Although a sum of Rs.1,063,131 receivable from Sewanagala Sugar Company for sugarcane, Rs.86,780 receivable from Lanka Sugar Company on the supply of cane treacle and Rs.1,000,000 receivable from Kantale Sugar Company had passed over 05 years, action had not been taken to recover to the end of the year under review. | The relevant letters were sent to recover a sum of Rs.1,063,131 receivable from Sewanagala Sugar Company, a sum of Rs.86,780 receivable from Lanka Sugar Company and a sum of Rs.1,000,000 receivable from Kantale Sugar Company. Copies of those had also been sent to you. Receipt of the money is doubtful because the Kantale Sugar Company is not in operation. But, it had been recorded in the final accounts of the Kantale Sugar Company as it could be obtained at the event of the liquidation. | Legal actions should be taken to recover the receivable amounts. |

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to<br>Laws, Rules,<br>Regulations etc. | Non-compliance  | Management<br>Comment   | Recommendation   |
|--|---|---|--|
| Inland Revenue<br>Act No.24 of<br>2017           |   |   |  |
| (a) Section<br>85(i)(b)                          | Although a 5 per cent withholding tax should be levied on the total amount paid and remitted to the Inland Revenue Department if the amount paid by the organization to the relevant service per month exceeds Rs.50,000 on service charges and contract payments, Withholding Tax amounting to Rs.1,478,330 on service charges and contract payment amounting to Rs.29,566,590 in 98 instances for 34 individual persons had not been deducted by the Institute and remitted to the Inland Revenue Department. | I inform that action will be taken to charge and remit the tax on withhold should be levied on service charges, contract and rent payments to the Inland Revenue Department since year 2019.              | Withholding tax on services and contracts should be calculated and remitted to the Commissioner of Inland Revenue according to the relevant section of the Inland Revenue Act.     |
| (b) Section<br>84(i)(a)(i)                       | Even though 10 per cent Withholding Tax should be charged on rent payment and remit to the Inland Revenue Department, Withholding Tax amounting to Rs.208,895 on rent payments of Rs.2,088,948 paid in 23 instances for 04 individual persons by the Institute had not been deducted and remitted to the Inland Revenue Department.   | I inform you that action will be taken to charge and remit the tax should be levied on withholding for service charges, contracts and rent payments to the Inland Revenue Department since the year 2019. | Withholding tax should be charged on rent payments were calculated and remitted to the Commissioner of Inland Revenue according to the relevant section of the Inland Revenue Act. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.74,852,362 and the corresponding loss in the preceding year amounted to Rs.79,402,411. Therefore, an improvement amounting to Rs.4,550,049 of the financial result was observed. Increased in Government grants had mainly resulted for this improvement.

## 2.2 Ratio Analysis

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The current ratio had increased as 1:10 to 1:15 from the previous year to the year under review and quick ratio had increased from 1:9 to 1:13.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| (a) 64 items of building repairs and maintenance equipment valued at Rs.4,473,021 purchased from 2007 to 2017 were being idled in the warehouse without identifying the need.  | I am informed that the building and maintenance equipment will be used for the year 2019.   | The steps should be taken to purchase by identifying the necessity and such purchased equipment should be used for the relevant purpose efficiently.   |
| (b) The main objective of the Sugarcane Research Institute is to develop high-quality commercial sugarcane varieties and conduct research for local sugarcane cultivation. The high sugarcane yields and high sugar content should be given from new varieties of sugarcane that will be introduced here. But even though the average sugarcane yield of sugarcane varieties introduced in 2011 and 2012 was 142 to 160 metric tons per hectare, according to research reports furnished by the Institute, it was observed that the cost of research was not effective because the | The value of sugarcane yield in varieties of sugarcane introduced for local cultivation in 2017 is an average of the yield given in the period of the year 2010-2012. Environmental factors, soil factors and biological factors prevailing in that period influenced for this harvest. It should be mentioned that this is not a specific value common to each year. Since the average yield was given higher than that compared with the standard varieties, those varieties were recommended. Further, these varieties have yielded sugarcane up to 120-150 metric tons per hectare in the Hingurana area and a yield of 9-13 metric tons of sugar per hectare. Therefore these varieties are recommended for local sugarcane cultivation and it had been provided this low yield in accordance with the | Action should be taken to introduce sugarcane varieties that are suitable for prevailing environmental conditions in sugarcane cultivating land areas. |

sugarcane yield of the five sugarcane varieties introduced in 2017 had lowered from 70 to 97 MT per hectare. environmental condition that prevailed in other areas in the year 2012-2010.

- (c) The Institute had not taken any action to recover from sureties or to take legal actions on Distress Loan amounting to Rs.126,986 receivable from year 2016 due to vacate and leaving from service. Credit default has occurred due to vacate service and death and recovery of the sureties is also problematic since the outside persons had signed as sureties as per the loan agreements existed in the institution. I inform that action will be taken to obtain the approval of the Board of Directors to write off such loans. Management should take appropriate action to duly recover the debts receivable from the employees.
- (d) In terms of Section 18 of the Sugarcane Research Act, No. 75 of 1981, a Cess is levied on the quantity of sugar produced by local sugar production companies and, action had not been taken to collect the Cess of Rs.1,479,900, Rs.7,417,390 and Rs.7,217,360 from Sewanagala, Pelawatta and Galoya sugar factories respectively at the end of the year under review. I have mentioned that the relevant documents had been sent to Galoya and Pelawatta companies for the payment of local Cess. Accordingly, Galoya should pay Rs.6,382,545 and Pelawatta should pay Rs.4,653,130. Recovery of money should be done as per the provisions of Sugarcane Research Act. It is important to implement at the Ministry level.
- (e) Sugarcane varieties such as SL 954443, SL 954430 and SL 954033 introduced in the years 2011 and 2012 are the sugarcane varieties that have the highest sugarcane yields and the highest sugar content introduced during the 31 Awareness had been conducted for sugarcane farmers and field officers on sugarcane cultivation from the year 2012 to 2016. A number in between 20 to 25 annual training sessions were conducted to officials and farmers to improving the sugar harvest under the projects to improve Steps should be taken to introduce more varieties of sugarcane with higher yields and higher sugar content.



years since the the quality of the sugarcane establishment of the harvest started since 2014. But Institute. The average in the recent past, the choice of yield of sugarcane in the farmers to select those these varieties is 142 to varieties for cultivation have 160 metric tons per reduced due to the problem hectare and even though such as lack of labours for its sugar content is 17 to sugarcane harvesting, 19 metric tons per difficulties in obtaining labours hectare, these sugarcane in the harvesting of ratoon varieties were limited to cultivation due to thin of a little area such as 16.5 sugarcane sticks in sugarcane hectares due to farmers' varieties. attitudes towards the introduced sugarcane varieties, lack of resistance to diseases and pests, and inadequate distribution of introduced sugarcane varieties to farmers and industry.

### 3.2 Transections of Contentious Nature

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| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>   |
|--|--|---|
| -----  | -----  | -----   |
| An amount of Rs.175,950 was retained in accordance with No. 2.01 of the Contract Agreement had been released before expiry of the liability period without correcting the date and time variation error when recording views that is a basic objective of the CCTV camera system was installed at a cost of Rs.1,759,500 on 16 December. | The action was taken to release the retention fee since the defect was not reported during the retention period. The Managing Director of Certis Lanka has agreed to install a new machine without any charge instead of view recording machine (NVR UNIT) with the relevant defect in the camera system. Accordingly, steps will be taken to rectify those error situation in the future. | Action should be taken to rectify errors and defects or not to release the retentions that were reported during the liability period. |

### 3.3 Management of Vehicle Fleet

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| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>-----</p> <p>A bus owned by the Institute had been released informally for a private need of a member of the Board of Directors.</p> | <p>-----</p> <p>This request was made by a current member of the Board of Governors who was also served as the Chairman of Sugarcane Research Institute from 1994 to 2002 and from January to September 2015 and accordingly, I would like to inform you that he is not an employee of the Institute or an outsider. However, since he was a person who served as a Chairman of the Institute for a long time and is a current member of the Board of Directors, actions were taken to provide the bus by considering he as a special person for the institute.</p> | <p>-----</p> <p>The government-owned vehicles should be used for the purposes of the Institute.</p> |