

Lanka Sugar Company (Pvt.) Limited -2019

1. Financial Statement

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Sugar Company (Pvt.) Limited (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income , 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 . My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in Paragraph 1.5 of this report.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Company’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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope (Auditor’s Responsibilities for the Audit of the Financial Statements)

My responsibility is to conduct an audit of the Company’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to particular Standard	Comments of the Management	Recommendation
(a) Although only assets maturing within 12 months of the reporting period should be reported as current assets in terms of Paragraph 66 (c) of Sri Lanka Accounting Standards No. 01, a fixed deposit of Rs.43,544,918 maturing on 22 April 2024 in Pelwatta Division and 03 fixed deposits of Rs.100,000,000 maturing at the end of 2021 and 2022 in Sevanagala Division had been shown under current assets in the statement of financial position.	Actions will be taken to invest these fixed deposits shown under current assets since 2014 for the next 5 years to be shown under non-current assets.	Only the assets maturing within 12 months from the reporting period should be reported as current assets in terms of the Standard.
(b) Although the significant accounting policy used in preparing the financial statements should be disclosed in terms of Paragraph 117 of Sri Lanka Accounting Standards No. 01, the accounting policy pertaining to provision for bad debtors amounting to Rs. 499,299,398 and Rs.9,242,963 for the farmers’ loans amounted to Rs.1,027,194,679 and Rs.230,931,560 respectively in the Pelwatta and Sevanagala Divisions respectively had not been disclosed from the financial statements.	Actions will be taken to disclose the policy for provision for bad debts through future accounting records.	The policy of bad debt provision itself should be disclosed from the financial statements.
(c) Even though it had been stated in the financial statements that the reports provided by the Government Valuation Department in 2013 and 2014 for the buildings, machinery equipment, vehicles and agricultural equipment in Pelwatta Division are incomplete, without taking actions re-assess the assets from then until the end of 2019 in terms of Paragraph 34 of Sri Lanka Accounting Standards No. 16, the book values	Actions will be taken in future to revalue of fixed assets with the help of Government Valuation Department and adjust the accounts.	The assets should be revalued and the accurate value should be disclosed in the financial statements in terms of Sri Lanka Accounting Standard No. 16 .

remained at the time of taken over were shown in the accounts as it was. Accordingly, it was impossible to accept that all the documented assets remain as it was and the cost of assets included in the financial statements amounting to Rs.4,334,737,840 and the net value of assets amounting to Rs.1,547,310,647 as at 31 December 2019 were accurate..

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| (d) | As a result of failure to review of useful life of non-current assets in terms of Paragraph 51 of Sri Lanka Accounting Standard No. 16, the property, plant and equipment of amounting to Rs.842,146,226 and Rs.99,511,282 in Pelwatta and Sevanagala Divisions respectively had been fully depreciated by the end of the year under review were further being used and actions had not been taken to revise that estimated error and to show the accurate carrying value in the financial statements in terms of Sri Lanka Accounting Standard No.08 | The fully depreciated assets had also remained in the Register of Fixed Assets even at the time of the institution was taken over by the government in 2011, actions will be taken to revalue and account for assets in future. | Actions should be taken to annually review the useful life of non-current assets in terms of Paragraph 51 of Sri Lanka Accounting Standard No. 16 and to revise and show the accurate carrying value in the financial statements in terms of Standard No.08 . |
| (e) | There were 28 total pending cases as 13 for the Pelwatta Division, 12 for the Sevanagala Division and 03 for the Head Office against the Company by employees and external parties and actions had not been taken to consider the current status of those cases to make provisions for contingent liabilities or to disclose in the financial statements in accordance with Paragraphs 84, 85 and 86 of Sri Lanka Accounting Standards No. 37 . | As compensation related to these cases had not been determined by the end of the 2019 accounting year , the provisions had not been made in the financial records. | Arrangements should be made to make provision for contingent liabilities or disclosed in the financial statements in terms of the instructions of Sri Lanka Accounting Standards No. 37 . |

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to the fact that 469.1674 hectares of land transferred to Sevanagala Division and the buildings and related machinery located on those lands had not been assessed and accounted for as per the Revival of Underperforming Enterprises or Underutilized Assets Act No. 43 of 2011, the depreciation provisions relating to buildings and machinery	As there are unauthorized residents at present in this land belonging to the Sevanagala Division a 469.1674 hectares of land in extent, those houses could not be able to acquire. The ongoing proceedings regarding these lands are being	Actions should be taken to ascertain ownership of land and buildings belonging to the Company and to document and account for them.

in use had also not been entered in the accounts .

completed and after that, actions will be taken to enter the buildings and machines located there in the books and depreciate.

- (b) Although the amount of Economic Service Charge payable to the Inland Revenue Department for the year 2018 amounting to Rs. 11,110,023 has been sent to the Head Office on 24 May 2019, it had been erroneously shown in the financial statements of the Division as payments to related parties. Further, since the Head Office had not remitted the said tax to the Inland Revenue Department and has been set off against the receivable from Sevanagala Division, the tax liability payable had not been disclosed in the financial statements.
- The amount of Economic Service Charge payable to the Inland Revenue Department for the year 2018 amounting to Rs. 11,110,023 has been sent to the Head Office through the control account.
- Actions should be taken to adjust the taxes to be paid to the government in the accounts and to pay.
- (c) Despite the Company had been exempted from VAT on sugar and sugar related products, the Sevanagala Division had charged a VAT of Rs.13,922,835 in the previous year and in the year under review and had set off a VAT of Rs.10,156,443 paid on expenses. Due to this, the expenses of the Company had been understated by Rs.10,156,443 .
- The Inland Revenue Department had exempted the Company from charging VAT on sugar and sugar-related products from 01 January 2008 .
- Actions should be taken to get instructions from the Commissioner of Inland Revenue to act accordingly.
- (d) A credit balance of Rs. 1,488,265 had been set off from the debt balance receivable in the farmer debt schedule.
- The refundable balance on identified mistakes in tracking farmer debt balances was Rs. 1,488,265 .
- The debt balance receivable should be shown under current assets and the debt balance payable should be shown under current liabilities.
- (e) The total balance of 07 ledger accounts of Sevanagala Division amounting to Rs. 1,890,879,751 in the preceding year had been shown as Rs.1,890,381,939 at the beginning of the year under review by understating Rs.497,862 and total balance of 04 ledger accounts amounting to
- These balances are indicated due to the fact that the accounts have not been closed as at 31 December 2018 in the software used for accounting purposes.
- The accounts should be closed at the end of the year and the accurate balance should be carried forward.

Rs.1,932,921,284 in the preceding year had been shown as Rs. 2,293,463,140 at the beginning of the year under review by overstating Rs. 360,541,856.

Furthermore, total opening debit balances of Rs.475,703 and opening credit balances of Rs.2,428,800 per expense account within 08 expense accounts that had no balance had been recorded.

It was observed that this error had occurred although the accounts should be closed as at 31 December 2018 without doing so, the transactions of the year 2018 were entered into the accounting system in the year 2019.

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| (f) | Since the work- in- progress in Sevanagala Division valued at Rs.29,932,255 had been erroneously classified and added to the value of property, plant and equipment and shown as one item in the statement of financial position, the net value of the property plant and equipment had been overstated by that amount. | Actions will be taken to correct in the next year. | Work-in-progress should be shown separately under property, plant and equipment. |
| (g) | It had not been disclosed in financial statements regarding the securities kept on 07 fixed deposits amounting to Rs.285,000,000 belonging to Sevanagala Division and bank loans and bank overdrafts . | Actions will be taken to correct in the next year. | Keeping fixed deposits as securities should be disclosed in the accounts. |
| (h) | Although the value of fixed deposits in the financial statements of the Sevanagala Division as at 31 December 2019 was Rs.788,059,004 the value of 19 deposits included in the Schedule of Fixed Deposits was Rs.711,059,003. Two fixed deposits valued at Rs. 45,000,000 had not been included in the schedule and it was observed that the Company did not have deposit renewal notifications for 02 deposits amounting to Rs.23,000,000 . | The value of fixed deposits as at 31 December 2019 was Rs.788,059,004 | The value of fixed deposits included in the financial statements should be ascertained by documents and schedules and renewal notices. |
| (i) | Instead of Rs. 501,069,784 included in the physical verification report of Sevanagala Division as of 31 December 2019, a sum of Rs. 825,392,789 had been included in the | Further actions are being done by carrying out follow up in the coming year regarding shortages and excesses . | Arrangements should be made to act on shortages and excesses while maintaining proper |

financial statements. Similarly, it could not be satisfied regarding the accuracy of the stock value of Rs.825,392,789 included in the financial statements as a result of there was a shortage of 174 stock items valued at Rs.385,097 and an excess of 180 stock items valued at Rs.565,010 and that there were 825 stock items valued at Rs. 6,388,008 that cannot be used and should be disposed of and a large amount of materials not included in the bin cards were in the warehouse and also included in the verification report and due to the issuance from receipts unaccounted stock existing of total credit balances of Rs.235,709,044 in 04 stock ledger accounts.

internal control over stocks and to represent the balance included in the physical verification report in the financial statements.

- (j) As per the depreciation policy included in the financial statements of the Pelwatta Division, The cost of field machinery and equipment (including leased assets), irrigation and miscellaneous equipment and factory plant and equipment was Rs. 3,178,861,066 with a depreciation rate of 15, 6 and 5 per cent respectively and a depreciation rate had not been specified for infrastructure. Nevertheless, a portion of assets cost at Rs.1,618,821,687 from those assets had been depreciated at various rates between 2 per cent and 25 per cent. Due to this, it was not possible to satisfactorily check the accuracy of depreciation expense and provisions for depreciation for the year under review.
- The assets that existed when the Company was taken over by the government in 2011, are included in the Register of Fixed Assets in the same manner. According to the existing depreciation policy, there was the difference in depreciation rates existed. As the relevant percentage difference cannot be done through the accounting system, actions will be taken to update the depreciation policy of the Company with the asset revaluation in future.
- A specific depreciation rate should be determined for infrastructure and depreciation calculation should be done in accordance with the depreciation policy.
- (k) Instead of the purchase price of the goods issued from the warehouse of the Pelwatta Division, recorded in the accounts at the last purchased price of that class of goods and the difference is adjusted to the cost of the financial statements through a valuation adjustment account and it had been stated by adding Rs.2,065,100 to 04 Expenditure Heads and deducting Rs.2,287,509 from 06 Expenditure Heads as such in the year under review. Further, a sum of Rs. 230,254,054 had
- This situation occurs automatically in the system used since 1999/2000. Arrangements will be made to correct this through the accounting system expected to be established in 2022 .
- The actual cost of each expense item should be accurately reflected in the financial statements.

been deducted from cost of sales as revenue on price changes, institutional and administrative expenses and training expenses and shown . It was observed that the due to an error in the accounting software, these account adjustments may not reflect the correct cost of the respective expense items in the financial statements.

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| <p>(l) From the compensation amount of Rs.40,430,655 requested from the Insurance Trust Fund for the machine called Modification Automation Factory Plant for turning sugar into cubes in Pelawatta Division that was purchased on 30 June 2014 for Rs.42,529,510 and destroyed by fire on 07 July 2018 , the machine was not repaired by Rs. 12,653,693 received in the year 2019 and was shown as trade and other payable balance in the statement of financial position and actions had also not been taken to disclose in financial statements regarding this fire damage. Further, a provision for depreciation of Rs. 2,126,475 at 5 per cent interest per annum up to the end of the year under review had been made on the cost of this unused machine.</p> | <p>Although the compensation amount of Rs.40,430,655 was requested for the hardware and software the compensation for the software was refused. The repair works of the machine has been completed in the year 2021. The adjustment and disclosure related to the installation of the new asset will be made in the year 2021 . Due to an error in the software it could not stop the depreciation of the machine. This has been corrected in the year 2021.</p> | <p>Steps should be taken to stop the depreciating of the machine and to dispose or repair it.</p> |
| <p>(m) Actions had not been taken by making provisions in accounts for the Economic Service Charges amounting to Rs. 31,828,247 to be paid by the Pelwatta Division in relation to the years 2018 and 2019 .</p> | <p>Provisions from the accounts have not been made for the Economic Service Charges for the years 2018 and 2019 .</p> | <p>Economic service charges for the years 2018 and 2019 should be paid.</p> |
| <p>(n) Although the fixed deposit interest income received in cash in Sevanagala Division in the year 2019 was Rs.65,771,479, a sum of Rs.47,243,935 had been overstated stating that value as Rs.113,015,414 including interest receivable in the cash flow statement.</p> | <p>Actions will be taken to correct.</p> | <p>Only the cash inflows and cash outflows should be entered in the cash flow statement.</p> |

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements Rs.	Value as per Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a) Nations Building Taxes payable for the year 2019 in Financial Statements of the Sevanagala Division	2,229,383	3,455,540	1,226,157	This difference is being checked with the Inland Revenue Department	The Nations Building Tax shown in the financial statements should be compared with the corresponding records.
(b) Loans receivable from farmers in Sevanagala Division	230,931,560	228,713,938 (Schedule) 230,202,208 (Age Analysis Record)	2,217,622 729,352	Comments have not been given.	The farmers loan balance shown in the financial statements should be compared with the schedule and age analysis.
(c) Income tax liability payable of the Company pertaining to the years 2015/2016 and 2016/2017	225,689,280	40,435,876 (As per the information obtained from the Computerized Tax Data System of the Inland Revenue Department)	185,253,404	The difference needs to be further investigated.	Actions should be taken to accurately calculate the income tax payable by the Company and to be paid to the Inland Revenue Department.

1.5.4 Lack of Evidence for Audit

Item	Amount Rs.	Audit Evidences not Provided	Comments of the Management	Recommendation
(a) Transactions related to money to be received and paid from the respective Divisions in Sevanagala and Pelwatta Divisions for outstanding debt balances from public institutions and public companies from 02 to 05 years and for transactions made during 2012 – 2019	674,101,828	Details related to transaction confirmation	As these government agencies are directly and indirectly related to the Company as related parties, transactions between the respective Divisions of the Company are also done through a control account.	Balances of accounts receivable and payable from related public and private companies included in the financial statements and from the transactions between the respective Divisions of Lanka Sugar Company Limited should be disclosed in detail.
(b) Amounts receivable from a private company that purchased Carbon Dioxide Gas produced by Sevanagala Division in 2015, 2016 and 2019	17,770,596	Balance confirmations	Actions will be taken to confirm the balance in the next year.	Balance confirmations
(c) Administrative expenses of the Head Office of the Company	51,804,587	Descriptions of Expenditure	A breakdown of expenditure had not been submitted with the financial statements.	Break down of the value.
(d) A total of Rs.31,000,651 recorded through 1,945 debit entries in 13 ledger accounts by journal vouchers of Palwatta Division and transactions totalled to Rs. 677,211,106 recorded by 47,981 credit entries.	677,211,106	Narrations of journal entries.	These deficiencies have occurred in recording transactions in the existing accounting software. Arrangements have been made to purchase a new software in the year 2022 .	Narrations for journal entries.

<p>(e) A sum of Rs.45,106,891 payable by the Pelwatta Division for the use of 20 tractors belonging to the previous owner of the Company during the period of 98 months from November 2011 to 31 December 2019 and the difference arising after setting off of Rs.18,135,593 for the rent receivable as the said owner has used houses belonging to Pelwatta Division.</p>	26,971,297	Written agreement and balance confirmation	<p>The Legal Department has been assigned to take necessary action to hand over the tractors related to these unsettled transactions which have been done without having a written agreement since the inception of the company or to use them on agreement. Necessary arrangements are being made to make all these transactions by entering into agreements and on cash basis.</p>	Written agreement and balance confirmation
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1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) Within the debt balance of Rs.1,027,194,679 and Rs. 230,202,208 due from sugarcane farmers in Pelwatta and Sevanagala Divisions respectively as at 31 December 2019 , there were debt balances of Rs.500,580,561 and Rs. 56,356,770 outstanding for 2 years and for more than 10 years respectively. It was observed that failure to take proper measures to recover the loan installments, failure to take the necessary measures to divert the farmers who have intended to illegal crop cultivation to sugarcane cultivation again had caused to this..</p>	<p>The bad debt provision has been made for the outstanding loan of Rs.499,299,398 since the establishment of the Pelwatta Division and as a result of failure to recover the debts amounting to Rs.464,023,067 remained before 2015 out of the remaining debts of Rs.527,895,281, because of decrease of yield of farmer debtors, the levy has been suspended on a Decision of Board of Directors with a view to keeping them in sugarcane cultivation. Various steps are being taken to recover the farmer debts. Comments have been made regarding the farmer debts in Sevanagala Division .</p>	<p>Necessary arrangements should be made to recover the farmer loans promptly.</p>
<p>(b) Actions had not been taken to recover the total of Rs. 7,296,045 as advance of Rs.5,990,286 which was given to</p>	<p>Advances paid to suppliers are being settled. Out of the debt balance of Rs. 284,102 remained for long period,</p>	<p>Appropriate steps should be taken to recover the outstanding debts.</p>

124 suppliers for getting goods and services by Pelwatta Division, and remaining for a period of 11 to 20 years, the total of 07 ledger accounts remaining from 2012 totalled to Rs.284,102 and the debts given to the employees' club even before the year 2014 amounting to Rs. 1,021,657 even by 30 September 2021 .

actions have been taken to remove Rs. 176,155 from accounting records by verifying that it could not be recovered . Comments have not been made regarding the debts amounting to Rs.1,021,657 given to the club .

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) The reasons for failure to settle a total of Rs. 67,539,641 from 2 years for more than 07 years as a sum of Rs.62,850,641 payable to sugarcane farmers, Rs.1,226,088 payable to sundry creditors and Rs.3,462,912 payable to 17 trade creditors had not been furnished.	Actions will be taken to settle these creditor balances which were to be paid.	Arrangements should be made to settle immediately.
(b) Although it was mentioned that the a sum of Rs. 121,664,307 had to be paid for the period pertaining to the period from the year 2002 to 2018 to a number of customers under 24 creditor accounts in the financial statements of Pelwatta Division, the reasons for the non-settlement of those balances had not been submitted to the audit.	Actions have not been taken to remove most of these creditor balances which had remained before the Company was taken over by the government, assuming that they have to be paid. Actions will be taken to obtain the an approval of the Board of Directors and to remove from the accounts	Actions should be taken to settle or appropriately adjust to accounts as appropriate.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Nations Building Tax Act No. 09 of 2009 Section 4(i)	Actions had not been taken to remit the Nations Building Tax (NBT) to be paid on sugar produced in Pelwatta Division during the period 2012-2016 under this law which was applied before 01 December 2019 amounted to Rs. 92,125,804 to the Commissioner General.	Even though the Nations Building Tax on sugar was not paid even by 31 December 2015. In the year 2011, after the Company was taken over by the Government, provisions were made at the end of each year. Tax Returns on it have not been sent and the Inland Revenue Department has notified that it will be written off under Section 11 of the Finance Act No. 18 of 2021 .	Arrangements should be made to clear the arrears of taxes without delay.
(b) Section 26 (1) of the Value Added Tax Act No. 14 of 2002	Although the Value Added Tax calculated on the last day of every month should be remitted to the Inland Revenue Department on or before the 20th day of the following month, actions had not been taken to pay the value added tax to be paid on the sale of ethanol and molasses in between 2012 and 2019 amounted to Rs.27,347,134 .	It was impossible to pay due to financial difficulties of the Company. Actions will be taken to make payments after having discussions with the Inland Revenue Department.	Arrears of tax should be remitted to the Inland Revenue Department without delay.
(c) Order 30 of Part 1 of the Orders published by Special Gazette No. 1533/16 dated 25 January 2008 by the Minister in accordance with the authority delegated by Section 23 A of the National	Environment Protection Licences had not been obtained for Pelwatta and Sevanagala Factories in relation to sugar production or sugar refining.	Environment Protection Licences have not been obtained for the Sugar Factory and the Distillery even by the end of the year 2019. A technical method was established to collect and remove the bagasse from the Sugar Factory before	It should establish environmental protection systems and Environmental Protection License should be obtained as per the Act.

Environment Act
No. 47 of 1980

mixing it to the environment and the Environment Protection License can be obtained after commencing an Organic Fertilizer Production Project related to the Distillery in the year 2022.

(d) Public Enterprises
Circular No. 12
dated 02 June
2003

(i) Paragraph 5.2.5

Although a copy of the Budget approved by the Board of Directors of the Company should be submitted to the Auditor General within 15 days of the commencement of the relevant year, a copy of the Budget prepared for the year 2019 had not been not furnished.

Actions will be taken to submit a copy of the Budget approved by the Board of Directors to the Auditor General on the due date.

Actions should be taken to prepare the Budget and submit as per the Circular.

(ii) Paragraph 9.3

Although a Scheme of Recruitment approved by the Department of Management Services should be applied, the Company had not adopted a Scheme of Recruitment for officers . Accordingly, it was impossible in audit that to satisfactorily examine or make observations on the number of posts available, the manner in which they were recruited and promoted and the correctness of the scales of salaries.

Approved Scheme of Recruitment is being prepared.

A Scheme of Recruitment should be prepared and get approved in terms of the Circular.

(iii)	Paragraph 8.3.3 (a)	<p>Although at the time of the financial statements and the Draft Annual Report were submitted to the Auditor General within 60 days and the annual report was tabled in the Parliament within 150 days and an institution that has made profits can get bonuses, despite the financial statements 2018 and 2019 had been delayed by 17 months and failed to table the Annual Report in Parliament, bonuses of Rs.13,514,219 and Rs.14,448,180 had been paid in 2018 and 2019 respectively as one month's salary to an employee of Sevanagala Division and Head Office.</p>	<p>As this Company is a large institution engaged in agriculture, it cannot be sustained without the active participation of workers and farmers. Therefore, the payment of bonuses and incentives to workers and farmers is being done as a longstanding practice. It is expected to improve the products of the Company from that.</p>	<p>Bonuses in contrary to the Circular should be recovered.</p>
(iv)	Paragraph 8.3.3 (c) (ii)	<p>Although the incentives cannot be paid when bonuses are paid, the incentive of Rs. 145,356,250 and Rs. 149,904,111 in the years 2018 and 2019 respectively Rs.75,000 to an employee of Sevanagala Division and Head Office and Rs.25,000 to an employee of Pelwatta Division had been paid without obtaining an approval from the Treasury.</p>	-do-	<p>Incentives in contrary to the Circular should be recovered.</p>

2. Financial Review

2.1 Financial Results

(a) The operating result of the year under review was a loss of Rs.1,362,373,144 and corresponding loss of the preceding year was Rs.163,387,023. Accordingly, a deterioration of Rs. 1,198,986,121 was observed in the financial results. When decreasing of the total income by Rs. 1,260,608,543 that is 19 per cent of the Company during the year under review as compared to the previous year, increase of total expenditure by Rs. 2,459,594,664 that is 36 per cent had mainly attributed for this deterioration.

(b) Thus the sales income and cost of sales of the preceding year were Rs.6,242,954,355 and Rs.5,025,819,435 respectively, the gross profit ratio was 19.5 per cent and thus the sales income was Rs.7,545,539,093 and cost of sales was Rs.7,522,967,783 in the year under review, the gross profit ratio had become as low as 0.3 per cent. The decrease of sugar stock- in- hand amounted to Rs.1,772,165,915 at the end of the previous year to Rs.27,267,100 at the end of the year under review by Rs.1,744,898,815 and increase in cost of sales compared to the preceding year by 49 per cent had attributed for this.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Accessories for Evaporator (SS Tube) which was imported by Sevanagala Division from India in the year 2018 at a value of Rs.9,564,866 after paying customs duty of Rs.3,924,394, was returned due to non-conformance to specifications and by not taking steps to collect the customs duty of Rs. 4,830,446 paid during the re-import in the year 2019 from the supplier, it had become a loss for the Company. Further, due to the fact that the lack of relevant documents at the Company to pay the customs duty, the value had been accounted for as foreign order advance.	Actions are being taken to recover the customs duty paid by the Procurement Manager.	Actions should be taken to recover the customs duty from the supplier.
(b) As a result of the Engineer of the Company did not issue the certificate that the Electro Magnetic Separator machine imported from India in the year 2018 for the need of the factory in Sevanagala Division for an amount of Rs.11,412,646, the expenditure incurred	As it is necessary to get the assistance of the officials of the Indian company that imported the relevant equipment, those tasks have been delayed due to the	Conduct an investigation and if there is a defect in procurement, disciplinary actions should be taken against those responsible.

had become fruitless due to being unused for almost 03 years by August 2021 without fixing it and the amount paid had been shown under advances on foreign purchases without being able to capitalize.

prevailing epidemiological diseases situation. At present, it has started to get the work done again.

(c) Three buildings in the land belonging to the Sevanagala Division had been handed over to two businessmen to run their business activities without being entered in to agreement or charged fees from the year 2012 and water supply amounted to Rs.1,279,792 had also been provided.

Due to the ongoing legal proceedings against the Sevanagala Division, it has been impossible to influence the places used by the private investor.

Necessary arrangements should be made to stop the supply of water to the properties belonging to the Company which are being used by outside parties and also to acquire them.

(d) Although the balance of the cash book of the Company as at 31 December 2019 was Rs.17,932,382, thus the bank overdraft balance was Rs.614,111,255, the net cash balance had become a negative value of Rs.596,178,873 and being a negative value of net cash balances as Rs. 555,465,760 and Rs. 17,768,995 in Pelwatta Division and Sevanagala Division as at that date. The bank overdraft interest was Rs.75,470,783 in the year under review and the situation was similar in previous years. Further, all the fixed deposits of Pelwatta Division amounting to Rs.829,068,708, and 07 fixed deposits of Rs.285,000,000 in Sevanagala Division had been kept as securities in order to obtain bank loans and bank overdraft facilities.

After taking over the institution to Government, as losses have been incurred in all other years except 2013 and 2016, bank loans and overdraft facilities had to be obtained by keeping fixed deposits as securities to maintain operations.

By managing expenses and improving financial position, the Company should be converted to the profitable condition.

(e) Due to make delays in duties to be paid on production of molasses as Rs. 4,698,431 for the period from 01 November 2017 to 30 June 2019 in Sevanagala Division and Rs.175,642 for the period from January 01 to 31 March 2019 in Pelwatta Division, it was observed that the delay charges paid to the Excise Department totalled to Rs. 5,874,073 as a loss to the Company due to management inefficiency.

Steps will be taken to pay the duties to the Excise Department on the due date.

Delay charges should be recovered from the parties responsible for the inefficiency.

(f) Out of the 12 per cent interest income

Although 3 per cent of the 12

Actions should be taken

charged for farmers loans, 3 per cent was reserved for the welfare of farmers and 1 per cent was reserved for the welfare of the institution from the year 2012 by the Pelwatta Division on a Management Decision and the farmers' welfare account was Rs.91,061,803 and the welfare account of the Company was Rs.30,419,099 as per the financial statements as at 31 December 2019. Nevertheless, no welfare activity whatsoever was done with the money so allocated from the year 2012 to the year 2019 .

per cent charged for farmer loans up to 31 December 2020 was allocated for welfare so, with the reduction of the interest rate to 8 per cent from the year 2021, the allocation was stopped.

to credit the money back to the revenue.

(g) Even though a sum of Rs. 9,251,437 had been deducted as expired stock from the stock balance in the financial statements of the Pelwatta Division from the year 2011 when it was taken over to the company up to the end of the year under review, it had been impossible to identify the stock.

In taking over the institution to the Government, there was no list of items related to this provision for expired stock of vehicles and machinery spare parts included in the financial statements and actions will be taken to remove these balances from the accounts in future Board of Surveys.

Expired stock should be identified precisely from a Board of Survey.

(h) Arrangements had not been made to revise the rent of 300 quarters belonging to 10 categories given to officers of Sevanagala Division to be matched at present and a monthly rental of Rs.20 to Rs.85 which was charged from the beginning were being charged.

Unauthorized residents stay in the quarters without paying any rent and defects in most of the more than 30-year-old quarters provided to employees have to be repaired . Necessary steps have been taken to get the houses assessed by the Government Valuation Department and to take further actions.

The house rent should be revised to be matched to the present.

(i) Although the officer has to pay for water, electricity and gas for government rented houses, without doing so, the Sevanagala Division had paid Rs.712,671 and Rs.97,240 for electricity and water respectively.

There is a possibility to charge house rent, water bills, and electricity bills at the prevailing rates of the government after resolving the existing legal issues.

Electricity and water charges should be borne by the officer. Arrangements should be made to recover the fees paid by the Company.

(j) Although an officer is required to leave the

Legal actions have already

Necessary arrangements

quarters on retirement, it was observed as at the date of audit that the 38 retired employees of Sevanagala Unit are residing in the their quarters .

been taken to evict the unauthorized residents.

should be made to prepare procedures for evicting employees from their quarters on retirement and also to evict resided pensioners.

(k) Payments had been made by giving authority, approval, certification for payment without having authorization on the approval of the Board of Directors for functions related to financial control of the Company.

Actions are being taken to delegate the financial control authorities .

Delegation of authority should be carried out for the functions related to financial control of the Company upon approval of the Board of Directors.

3.2 Transactions in Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) It was observed that the containing of the stock of Rs. 4,904,160 within the stock- in- transit that have been in existence for more than 05 to 07 years as at 31 December 2019 in Pelwatta Division.	This balance, which exists before the year 2014, is an accounting error caused by under-accounting the cost of goods.	Necessary actions should be taken to check whether the goods have been received .
(b) It was observed that the being unsettled of a sum of Rs.188,485,761 payable to 1379 creditors related to the purchase of goods and services shown in the financial statements of Pelwatta Division for a period of 01 to 10 years as a controversial issue.	Action will be taken to settle these payable creditor balances .	Necessary steps should be taken to check whether the creditors as such are available.
(c) When "Sevanagala Sugar Industries" was taken over by the government in the year 2012, despite there was no commitment for the settlement of liabilities of that institution, payment and settling of a total of Rs.38,480,354 as Rs.38,096,521 payable to government agencies and farmers for getting electricity, water, sugarcane belonging to that institution and Rs.383,833 for refunding of deposits for accommodation to resigned employees from the year 2012 to the year 2018 by the Company to the related parties was a controversial matter.	Since there is no company called Sevanagala Sugar Industries, accounting as a receivable is impractical.	It should be re-investigated on these payments made despite there were no responsibilities for settlement.

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| <p>(d) Making arrangements to get a house rent of Rs.132,000 for the period from 2020 to 2030 at Rs.1,000 per month without being proceeded to take possession of the quarters of the Sevanagala Division given to a politician to maintain an office was a controversial matter. Further, arrangements had not been made to take over a house which was given on rent to a government officer for Rs. 2,000 per month in April 2016 and the contract period had expired.</p> | <p>Actions have been taken against these houses and it is expected that the orders therein will be implemented and further activities will be carried out after the completion of the proceedings.</p> | <p>Actions should be taken to take over the quarters.</p> |
| <p>(e) Although the Inland Revenue Department had exempted the Company from charging VAT on sugar and sugar-related products since 01 January 2008, being levied of VAT on those products continuously by the Sevanagala Division was a controversial issue and the charge of the year under review was Rs.5,133,694 .</p> | <p>Comments have not been given in respect of exemption of the Company from VAT on sugar and sugar related products.</p> | <p>In levying taxes, it should be complied with the instructions given by Inland Revenue Department.</p> |

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the Sevanagala Division had entered into an agreement with "Industrial Gases Pvt. Company" in 2014 for a period of 20 years to produce Carbon Dioxide Gas and sell 01 kg for Rs.25, the gas was sold to another company called "Lanka Carbonic Industries". Similarly, due to failure to take measures to collect Rs.17,770,596 to be received as at 31 December 2019, including Rs. 7,473,696 to be received for the sale of gas in the years 2015 and 2016, to revise the selling price for a period of 05 years and also to install a meter to measure the amount of Carbon Dioxide produced, it could not be satisfied whether the income from Carbon Dioxide sales are properly obtained.</p>	<p>The sale price of Carbon Dioxide has been revised with effect from 31 December 2021 . Carrying out the weighing is being done by using the scale located and issuing of invoices are being done as evidenced by a ticket. Answers have not been given in respect of sale of Carbon Dioxide Gas to another company without being sold to the contracted company and failure of recovery of receivables.</p>	<p>Steps should be taken to revise the price and install a meter to measure the amount of Carbon Dioxide produced, to collect money to be received and to act as per the agreements.</p>

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| <p>(b) Although the maximum capacity of the factories of the company was 897,500 metric tons of sugarcane, due to the sugarcane supply in 2019 was 571,370 metric tons, 63 per cent of capacity of the factories had been used in the year under review. The reduction in supply of sugarcane had resulted to be unable to reach the maximum capacity level of the factories of the company.</p> | <p>The yield decreased and the amount of sugarcane milled also decreased due to less of rainfall, shortage of fertilizers and agro-chemicals. Efforts are being made for the implementation of the Galamuna Project, development of small tanks, construction of small rainwater ponds, provision of assistance to farmers for construction of cultivation wells, providing of water pumps and water pipes, providing fertilizers and insecticides, expanding the amount of outside farm land, and paying higher prices for sugarcane.</p> | <p>Plans should be prepared to get supplied sugarcane to the maximum capacity of the factories.</p> |
| <p>(c) The 9,787,259 liters of Ethanol production of the Company in the year 2018 had decreased to 5,212,560 in the year 2019 by 47 per cent due to lower demand.</p> | <p>The production has decreased in 2019 as compared to 2018 by being limited the sales at the price of Rs.290 due to the urged to import ethanol . But due to the fact that the government decided to stop the import of ethanol in 2020 and set a fixed price of Rs. 500 per liter, the production and sales revenue have also increased in 2020 and 2021 .</p> | <p>Necessary arrangements should be made to increase the production capacity.</p> |
| <p>(d) The annual sugar production of Pelwatta Sugar Factory was 28,061 metric tons in 2018 and it had decreased by 10 per cent to 25,162 metric tons by 2019. Although the decrease in sugarcane supply and their sugar percentage had mainly affected for this, necessary actions had not been made to increase them.</p> | <p>Although the supply of sugarcane in 2018 was 371,694 metric tons and the extraction capacity was 7.55 per cent , the supply of sugarcane in 2019 was 330,824 metric tons and the absorption capacity was 7.61 per cent. The shortage of fertilizer had also affected this.</p> | <p>Necessary actions should be taken to increase sugarcane supply and percentage of sugar.</p> |
| <p>(e) Although the total amount of sugarcane cultivable land belonging to Sevanagala Division was 4,215 hectares, the total extent of area under cultivation was 3,240 hectares by the end of 2019. Accordingly, although the Sevanagala Division had</p> | <p>Although there was not a full amount of cultivated land due to reasons such as lands preparation for replanting, crop rotation, harvesting of seed sugarcane, and drought, arrangements will be</p> | <p>Attention should be drawn to cultivate the entire land area.</p> |

owned the lands that can provide sufficient supply of sugarcane to maintain the operations of the factory at maximum capacity, actions had not been taken to grow sugarcane on those lands and to increase the production of the factory .

made to constantly increase the extent of area under sugarcane cultivation.

3.4 Procurement Management

Audit Observation

In purchasing goods and services for the Sevanagala Division, the entire amount related to the order was given in advance along with the order and the advance of Rs.12,965,197 given to 21 local suppliers and advance of Rs.6,524,060 given to 35 foreign suppliers during a period of 01 to 07 years had not been settled even by 31 July 2021 . Similarly, entering these goods in the inventory books and issuing of Goods Received Notes had also not been made.

Comments of the Management

Arrangements are being made to promptly settle the purchase of advances.

Recommendation

Actions should be taken to promptly trace and to settle outstanding advances and also to establish a formal internal control system related to purchases.

3.5 Deficiencies in Contract Administration

Audit Observation

- (a) The Wastewater Treatment Project, which was started in 2013 and stopped in 2014 by purchasing of machinery valued at Rs. 27,067,812 and the unused Tube Well Project constructed in 2014 at a cost of Rs. .2,864,444 by Sevenagala Division had been unsuccessful and the expenditure incurred had been shown in the work-in-progress account for many years. As a result, the Company was unable to obtain the Environmental Protection License.

Comments of the Management

The Wastewater Treatment Project has not been completed. An investigation is going on regarding the construction of tube wells which were carried out as a research project.

Recommendation

Arrangements should be made to find out the reasons for the failure of these projects and enable it or to take disciplinary actions if it is someone's negligence.

3.6 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) Two projects which were started by spending Rs.37,982,159 before the year 2011 and 17 projects which were started by spending Rs.55,915,893 between 2011-2015 in Pelwatta Division had been abandoned without being completed. It was observed that these expenditures were controversial and fruitless and that no investigative action has been taken regarding the expenditures	Lack of any record regarding the completion of the project, non-completion of the project, stopping of the projects in the halfway, breaking down the sugarcane loading cranes before handing over the project and being an expenditure in the accounts when taking over 02 projects to the government have caused.	Responsible parties should be identified and disciplinary actions should be taken after conducting investigations in respect of these controversial and fruitless expenditures.
(b) Although Rs.6,232,595 and Rs.6,618,123 had been spent in 2018 and 2019 for maintaining a golf ground in Pelwatta Division and for its maintenance wages respectively, it was observed that the money spent had been fruitless due to failure to use the ground for golf.	Although the golf ground was not used after taking over to the government, employees have been paid for it because it needs to be maintained. Attention has been drawn on getting the stadium into use.	Plans should be prepared for the use of this stadium.
(c) The Pelwatta Division had purchased a crane with a value of Rs. 128,910,000 under lease facilities in the year 2013 and an amount of Rs. 120,750,000 was paid for that and also a sum of Rs. 2,254,850 had been spent to provide electricity. Nevertheless, due to the fact that the machine was not installed in the factory as agreed by the supplier, the amount of Rs. 123,004,850 spent had become fruitless because of being unusable from the date of purchase.	Although this crane, which was purchased to upload sugarcane into the factory had broken down within a short period such as 03 months and was repaired, it was not successful. The payment of lease for the cost of Rs.11,812,500 pertaining to one part of the machine has been suspended. Even though the Financial Crimes Investigation Department had conducted an investigation into the project, no final decision has been made.	Arrangements should be made to take disciplinary actions identifying the responsible parties through an internal investigation and to trace the progress of the investigations of the Financial Crimes Investigation Division and to recover it .

3.7 Human Resources Management

Audit Observation

Considering the request and work experience of the female officer recruited for the post of clerk in the year 1988, she was promoted to the position of Manager (Finance) and an acting allowance of Rs.15,000, fuel allowance of Rs.15,000 and vehicle allowance of Rs.50,000 had been given monthly from May 2018 up to the end of the year under review for the said officer for working as an acting Deputy General Manager (Finance), without making a formal appointment by the Chairman who is the competent appointing authority.

Comments of the Management

It has been informed that the further investigation should have been done in this regard.

Recommendation

A Scheme of Recruitment should be prepared and get approved for the Company and all the recruitments should be made in accordance with it.

4. Accountability and Good Governance

4.1 Presentation of financial statements

Audit Observation

Although the financial statements along with the draft annual report should be submitted to the Auditor General within 60 days of the end of the financial year in terms of Paragraph 6.5.1 of Public Enterprises Circular No. 12 dated 02 June 2003, the Company had submitted its financial statements on 16 August 2021 with a delay of 18 months and the Draft Annual Report had not been furnished.

Comments of the Management

Arrangements will be made to submit the financial statements along with the Draft Annual Report to the Auditor General on the due date.

Recommendation

The financial statements should be submitted to the Auditor General along with the Draft Annual Report in terms of the Circular..