

Sugarcane Research Institute - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 presented in 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 Sugarcane Research Institute as at 31 December 2021, 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

My opinion is qualified based 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

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 Corporation.

1.4 Audit Scope (Auditor's Responsibilities on Financial Statements)

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 Corporation'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 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 it 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 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
<p>Actions had not been taken to disclose about 57 vehicles owned by the Institution which were fully depreciated from the year 2019 already in use cost at Rs. 118,873,548 in the financial statements in terms of Paragraph 7 (92) (b) of Public Sector Accounting Standards of Sri Lanka . Similarly, the assessment of the useful life of these assets had not been reviewed and adjusted in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard No. 03 .</p>	<p>The report of vehicle audited of the Institute was received in May 2022 and those revalued amounts will be taken into the financial statements 2022. Similarly, actions will be taken to disclose the fully depreciated assets in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard No. 07 (92) (b) .</p>	<p>Steps have been taken to disclose information in financial statements about fully depreciated but still in use assets and to review their useful lives.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the stock of consumer items as at 31 December 2021 had been physically verified, the book balance of Rs. 30,999,885 of the stock had been entered in the financial statements without adjusting those physical stock values in the financial statements. Similarly, although the stock of 240 types of chemicals and consumer goods valued at Rs.1,619,565 held in 05 Research Divisions which were issued from the stock of the main warehouse as at 31 December 2021 and 127 auto repair spare parts stock with unrecognized value in the Mechanical and Technology Division had remained at the end of the year under review, actions had not been taken to adjust those stock balances in the financial statements.</p>	<p>As the verified consumer items report was completed in March 2022, the stock book balance was entered in the financial statements.</p>	<p>Actions should be taken to survey all the stocks held by the organization at the end of the year and reconcile the physical stocks in the financial statements.</p>
<p>(b) Even though it had been stated that the Ethiamale Sugar Private Company had produced 10,917,000 kg of sugar during the year, the Cess of Rs.1,091,700 to be charged at the rate of Rs.0.10 per kilogram as per Section 18 of the Sugarcane Research Institute Act No. 75 of 1981 had not been not accounted for and the Cess amounting to</p>	<p>Due to failure of providing domestic sugar production data requested by Ethimale Sugar (Private) Company, it has been impossible to calculate the Cess Income for the year 2021 and the verbally confirmed data has been obtained for the news letter. After receiving the data, actions will be taken to calculate and collect the Cess</p>	<p>Actions should be taken to recover the Cess Income as per the Act and to properly account for the same income as per the accounting policy.</p>

Rs.1,611,660 sent in the year 2021 related to the year 2020 from Sevanagala Division of Lanka Sugar Pvt. had been accounted for as income in the year under review. Due to this, the income of the year under review amounting to Rs.519,960 and the receivables amounting to Rs.1,091,700 had been understated in the financial statements of the year under review.

Income . Actions will be taken to correct the Cess for the year 2020 of Sevanagala Division in the next accounting year, which has been accounted as income received in the year 2021 .

- (c) Although the amount receivable to the Institute from Sevanagala Division of Ceylon Sugar Company had been included in the financial statements as Rs.6,013,855, the confirmed balance payable from the said company was only Rs.4,005,209. Although the reason for this difference was failure of accounting of the amount receivable for the seed sugarcane that had been given, actions had not been given to correct those balances and reconcile them in the financial statements.

Issuance of balance confirmation letters have been made only for Rs. 4,005,209 by deducting the value of seed sugarcane given to Galoya Plantation Company and Palwatta Division out of Rs.6,013,855 sent to Sevanagala Division in the years 2019, 2020 and 2021 for a project to control White Leaf Disease (WLD) from sugarcanes.

The amounts due from Galoya Plantation Company and Pelawatta Division of Lanka Sugar (Private) Company Limited should be shown in the financial statements separately.

- (d) Even though it had been stated that the Cess receivable from Pelwatta Division as at 31 December 2021 was Rs.3,041,310 in the financial statements, thus the amount confirmed by the Division was Rs. 1,194,310, a difference of Rs. 1,847,000 was observed. Although it was observed that the reason for this was that the company had set off an amount of Rs. 1,847,000 for

The Pelwatta Sugar Company has been informed in writing since 2016 to pay this amount of Cess which has been set off for the repaired vehicle to the Institute. Relevant steps are being taken at the Ministry level.

The full amount of Cess receivable should be recovered.

the repair work done on a vehicle belonging to the Institute which had been given for the use of Ceylon Sugar Company between 2013-2015 to the Cess, the amount could not be recovered.

- | | | |
|--|---|---|
| <p>(e) It had been stated that the refundable deposit of Rs.144,000 placed in the year 2016 to Ceylon Oxygen for 06 cylinders of carbon dioxide of 3kilo 1 grams will be gradually reduced annually after 2 years and abolished after 8 years in the receipt issued by that Institute. Accordingly, the recoverable amount was 50 per cent from this deposit which has lapsed for 6 years up to the end of the year under review and although it was observed that if these cylinders are used by the Institute the deposit can be released and accounted for as assets, a further refundable deposit of Rs.144,000 had been indicated in the financial statements instead of accounting of these cylinders which were depreciated with a value of Rs.72,000, as assets.</p> | <p>Actions will be taken in the year 2022 to take over the gas cylinders valued at Rs.144,000 purchased from Ceylon Oxygen Company and currently owned by that company as an asset of Sugarcane Research Institute after making relevant adjustments.</p> | <p>The cylinder should be taken over as an asset of the Institute.</p> |
| <p>(f) It had not been stated that from whom should the deposit of Rs.118,375 kept under the name "For Gas Cylinders" in the financial statements be received.</p> | <p>It has been difficult to find the records pertaining to deposits of Rs.118,375 kept for gas cylinders at Udawalawa main premises since the establishment of Sugarcane Research Institute in 1987.</p> | <p>It should identify and disclose that in which institution the deposit is kept.</p> |

1.5.2 Lack of Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
----- The deposit of Rs.200,000 deposited in the year 2017 for getting electricity to Kantale sub-station had not been confirmed by the Ceylon Electricity Board and the information to confirm the deposit of Rs.150,000 for the Udawalawa Main Center which was commenced in the year 1987 had not available in the Institute.	----- It has been difficult to find the records of deposits of Rs.150,100 belonging to the Udawalawa Main Center of Sugarcane Research Institute established in 1987.	----- The deposit balances included in the financial statements should be confirmed by written evidences.

1.6 Accounts Receivables and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
----- The Institute had failed to recover the outstanding loan amount of Rs.1,000,000 given to Kantale Sugar Company for more than 5 years.	----- Relevant activities are being carried out at the Ministry Level regarding the recovery of the loan amount.	----- Proper action should be taken to recover.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 25,400,283 and the deficit as against to that was Rs. 6,339,649 in the preceding year. Accordingly, an improvement of Rs. 18,444,775 was observed. The increase of the income by Rs. 56,139,072 and the decrease of the expenditure by Rs.7,197,281 during the year had mainly attributed to this improvement.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The following observations are made.

- (a) The capital and recurrent grant of the Government in the previous year amounting to Rs.236,970,043 had increased by Rs.88,729,957 to Rs.325,700,000 in the year under review.

- (b) The capital grant issued by the Treasury in the year 2021 for Sugarcane Research Institute was 63.30 million and the recurrent grant was also Rs.262.40 million as per the Treasury sources. Nevertheless, thus the capital grant and the recurrent grant included in the statement of financial performance of the Institute were Rs. 55.80 million and Rs. 269.90, it was observed that Rs.7.5 million of the capital grant was spent on recurrent expenses.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the Director General of the National Budget Department informed in the year 2017 to take necessary actions to receive the Insurance facilities provided by the National Insurance Trust Fund instead of the Medical Aid Insurance Scheme run by the Institute using Treasury Funds, without paying attention on it, the Scheme was maintained on the approval of the Board of Directors of the Institute and the benefit awarded in the year under review was Rs.18,768,838 and the amount payable at the end of the year was Rs.14,415,972 . It was observed that the benefit offered during the year under review was Rs.18,768,838 and the amount payable at the end of the year was Rs.14,415,972.</p>	<p>Payments were being made using Treasury allocations and other sources of income of the Institute after the transfer of the Cess revenue to the Treasury and the medical aid scheme, which was maintained on the basis of the Import Cess Revenue on the Decision the Board of Directors since the year 1984 when the Sugarcane Research Institute was established.</p>	<p>Actions should be taken to obtain insurance cover from the National Insurance Trust Fund on the instructions of the Treasury.</p>
<p>(b) It was observed that an income variance of Rs.18,779,284 that is 16.39 per cent by estimating only Treasury provisions without preparing estimates for the actual income amounting to Rs. 20,520,716 for Cess and other</p>	<p>Actions have been taken to include Cess Revenue on domestic production in the Budget 2022 . Comments have not been made regarding cost variations.</p>	<p>The Budget should be used as an effective management control tool.</p>

income in the year under review and a variation of 12.35 per cent to 100 per cent was observed between the estimated expenditure and the actual expenditure of 06 Expenditure Heads.

- (c) Despite only Rs. 15,350,391 had been indicated as per the estimate of Rs. 24,411,265 prepared by an engineer of Sri Lanka Mahaweli Authority including work to be done amounting to Rs. 9,060,874 for road construction only without the work to be done for the modernization of the wall and chain link fence , it was accepted and a sum of Rs.976,449 had been paid as a part of payment out of his fee of Rs.1,220,562 .
- Although the estimated value was Rs.24,411,265 thus the budgeted amount was Rs.3,000,000, only Rs.976,449 that is 80 per cent of amount for drawing the plan and preparing the estimate has been paid as per the Decision of the Procurement Committee taken to pay the engineer's fee and complete the selected part of the road. After completion of the work totally, it has been decided to pay the remaining 20 per cent.
- Detailed estimate for the entire work should be obtained from the respective Engineer.
- (d) Although an advance of Rs.217,383, which is 50 per cent of the fee, was paid to the Sri Lanka Development Administration (SLIDA) in October 2019 for the preparation of the Institute's Manual Of Procedure on agreement of delivery in December 2019 at a fee of Rs.434,767 and 02 years 07 months had passed by June 2022, the Manual Of Procedure had not been handed over. Evidence had not been submitted that the approval of the Board of Directors was obtained for this, and that a contractual agreement was entered into with the Institute.
- The draft of the Manual Of Procedure of the Sugarcane Research Institute was received from the Sri Lanka Development Administration in June 2022 and actions will be taken to complete the Manual Of Procedure during this year after checking its contents by the Institute.
- The approval for the Manual Of Procedure should be obtained and implemented.

- | | | | |
|-----|--|--|---|
| (e) | It was observed that there was no focus on keeping assets safe by not maintaining inventory records for each Division of the Institute. | Necessary actions will be taken to be documented from the year 2022 through soft copies of inventory registers. | Inventory records should be maintained for each Division. |
| (f) | Due to the fact that the records had not been made about the use of the machinery used for research in 06 Research Divisions of the Institute, it was not possible to prove that the machinery was being used efficiently. | Separate documentation will be maintained for each machine in future cases of use. Since laboratory equipment is used only when necessary, their effectiveness cannot be concluded from the time of use. | Actions should be taken to use machinery with maximum efficiency and to keep records thereof. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation	
-----	-----	-----	
(a)	The purpose of setting up the Sugarcane Research Institute was to conduct research on sugarcane growing and cultivation and although progress has been made That 04 new improved varieties were released for commercial cultivation during the year under review for development of high quality sugarcane varieties and it had not been not mentioned as to what new sugarcane varieties have been identified and improved and it was reported that the Large- mill test for the release of new varieties was not done even by the end of the year.	Since the sugar factories could not meet the required amount of sugarcane in due time due to the periodic closedown of the organization activities due to the spread of Covid in the country, 04 sugarcane varieties SL 03 1025, SL 03 336, SLT 03 5441 and SLT 03 5445 which are currently being released for commercial cultivation with the aim of increasing sugar yield by 2 per cent could not be achieved in 2021. It has been planned to complete the Large- mill test for those varieties in the year 2023.	The 4 varieties of sugarcane issued should be indicated in the progress reports. Large -Mill inspections should be carried out immediately.
(b)	According to the newsletter of Sugarcane Research Institute in December 2021, it had been indicated that the sugarcane variety SL96128 introduced by	As well as weaknesses in plantation management activities, failure to harvest mature crops as recommended, grind in due time as well as	Special attention should be given to the introduction of improved sugarcane varieties.

the institute in 2012 was the most popular variety in all sugar factories and its distribution was 50 per cent. Nevertheless, it was observed that the variety has low sugar assimilation capacity and there is a need to introduce an alternative variety as per the minutes of meetings held with sugar industrialists and letters exchanged and also observed that the percentage of sugar extraction which was 8.2 percent in the year 2013 has gradually decreased annually to 7.2 percent sugar in the year 2019 and 6.8 percent in the year 2020 as per the newsletter issued by the Institute in March 2021.

maintain high sugar production efficiency in factories are mainly affected to decrease the absorption of sugar as indicated. Steps have been taken to provide the SL 88 116 variety which has the relatively high sugar percentage to the seed sugarcane factory in Sevanagala for promotion and SL 00 92 and SL 00 354 varieties to Palwatta, Galoya and Ethimale sugar factories to establish sugarcane nurseries.

(c) Although 37 years had passed since the establishment of the Institute, the sugar industry had not been properly established in the country as a result of the Institute had not been empowered to cultivate sugarcane commercially, carry out development activities related to the local sugar industry, regulate the local sugar industry and determine the commercial adoption of introduced sugarcane varieties by the Sugarcane Research Act No. 75 of 1981 . It was observed that 91.8 per cent of the total sugar supply had been imported and a sum of Rs. 51 billion , which is 13 per cent of the food expenditure had been incurred for that because of the domestic sugar production was 61,000 metric tons and sugar import was

Although 37 years have passed since the establishment of the institute, the proper establishment of the sugar industry in the country has been disrupted as a result of the Institute has not been empowered by the Sugarcane Research Act No. 75 of 1981 to cultivate sugarcane commercially, carry out development activities related to the local sugar industry, regulate the local sugar industry and determine the commercial adoption of introduced sugarcane varieties.

The attention should be drawn to amend the Act in such a way that the Institute can get the powers it should have for the enhancement of the local sugar industry.

683,000 metric tons in the year 2020 according to the newsletter issued by the Institute in December 2021 .

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
<p>Despite the Technical Evaluation Committee had recommended and approved the Procurement Committee in December 2021 to purchase a multi-chopper machine with 17 horse power engine capacity with one year warranty for shredding raw materials in compost production, that decision was changed later and a machine with an engine capacity of 8 horse power without a warranty period for the engine had been purchased for Rs. 575,000 . Due to the fact that the purchased machine was not guaranteed to be in proper condition, the machine was reported to be damaged and remained in idle without being used, it was not confirmed to be a modern machine in proper condition and it is observed in the audit that this is a controversial transaction.</p>	<p>After that institution has informed that the multi-chopper machine which was approved by the Procurement Committee valued at Rs. 355,000 could not be provided, it had been purchased for a Rs. 575,000 by deducting Rs. 75,000 out of the Rs. 650,000 which was furnished at first on the recommendation of the Technology Evaluation Committee and the Procurement Committee, the machine with an engine capacity of 08 horse power from the organization that submitted the lowest price. There were no facts presented to us that the machine was damaged or not a modern machine.</p>	<p>An investigation should be conducted and appropriate actions should be taken.</p>

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
<p>A number of 400 acres of land and 13 buildings had been given to the Sugarcane Research Institute from the land owned by the Kantale Sugar Factory in the year 2011 with the aim of commencing the Kantale Sugar Factory, it aims to supply the necessary</p>	<p>On the government policy of starting Kantale Sugar Factory, this sub-centre was further maintained on the recommendations of the Ministry for generating research information and developing and</p>	<p>Arrangements should be made to reconsider the need to maintain the Kantale sub-centre and to make proper use from its assets.</p>

seed sugarcane, and to provide facilities for research activities, including the selection of sugarcane varieties suitable for the area and although the Institute had deployed a staff of 27 people and had spent Rs.120 million in capital expenditure over a period of 10 years up to 2021, as the Kantale Sugar Factory had not been started, the cost had become futile.

maintaining the necessary infrastructure for processing seed sugarcane.

3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
<p>Although the Sugarcane Research Institute is the only institution established to conduct research and development of advanced commercial sugarcane varieties in local sugarcane cultivation, Deputy Director (Research and Technology Transfer) post from the year 2020, the Chief Technology Exchange Officer post and 02 Chief Research Officer posts which were the key positions contributing to its research activities from the date of creation of the post and 03 remaining Principal Research Officer posts in between 2013 and 2021 had also been in vacant and it was observed that it had become an hindrance to the fulfillment of the purpose and functions of the Institute.</p>	<p>Comments have not been given.</p>	<p>Vacancies should be filled.</p>