

Sugarcane Research Institute - 2022

1. Financial Statements

1.1. Adverse Opinion

The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 reported to Parliament appear in this report.

In my Adverse opinion, the accompanying financial statements do not reflect a true and fair view of the financial position of the Sugarcane Research Institute as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in do not accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Adverse Opinion

My opinion is adverse 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 adverse 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 Sugarcane Research Institute 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 Sugarcane Research Institute's financial reporting process.

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

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 Sugarcane Research 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 Sugarcane Research Institute
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation 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 the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The annual depreciation expenses of Rs.48,361,772 was calculated on the basis of the revaluation amount of buildings, automobiles and agricultural equipment as on the beginning date of the year.</p> <p>And particular annual depreciation expenses was written off by the revaluation reserve account, therefore annual deficiency and balance of the revaluation reserve account had been shown undervalue amount of Rs.48, 361,772 .</p>	<p>According to Sri Lanka Accounting Standard No. 18 and International Accounting Standard No. 16, the depreciation of Rs. 48,361,772 was adjusted based on the policy of writing off the excess depreciation expense to the retained earning account by the revaluation reserve account and</p> <p>Also based on the observation of the Auditor General's in the year 2022, this depreciation adjustment will correct and it has been informed with that replacement financial statements for the year 2022 will be provided along with the financial statements for the year 2023.</p>	<p>Expenses should be accurately identified and accounted for in accordance with Accounting Standard and policies.</p>
<p>(b) In 13 th October 2022, To complete the requirement of glyphosate in plantation field, as a grant, by Sri Lanka Customs was provided 17000 liters it had been cost of Rs.9,445,866.</p>	<p>The transaction of did not make adjustments in the financial statements of Sugarcane Research Institute in the year 2022, for the stock of glyphosate cost Rs.9,445,866 given to the Sugarcane Research Institute by the</p>	<p>The grant should be accurately identified and accounted</p>

This value had not recorded in accounts. Sri Lanka Customs as a grant, corrections will make based on the

Therefore it has been increase annual deficiency from that amount observations of the Auditor General in the year 2022 Also it has been informed with that replacement financial statements for the year 2022 will be provided along with the financial statements for the year 2023.

- (c) Based on the purchase order, During the year, purchasing fix assets the cost of Rs.10,110,967 were allocated as provisions of Creditors. Because of this allocation, As on 31st December of the year under review Inventory and creditor account balance were over value by that equivalent value For the last quarter of 2022 capital expenditure of Rs.10 million had been released by the General Treasury to the Sugarcane Research Institute and the procurement activities will be completed promptly and the quotations will be submitted to the institutions to be purchased at the end of December 2022. It has been informed that there was an amount of Rs.10,798,170 as an expense to be paid for purchases, and it had been informed that the relevant creditor accounts have been credited and the same values have been debited to the wholesale accounts. According to accounting concepts, only the transactions related to the reviewed year should be identified and accounted correctly
- (d) During the year gratuity expenditure incurred in cash as Rs.5,294,790, and it had been accounted as the related expenditure for the year. While provision for gratuity account has been overvalued in Rs.3,403,480 on the end of day in last year and that amount and the adjustments were made through the statement of financial performance of the year under review , the deficit for the year was understated by that amount. Based on the observations of the Auditor General in the year 2022, the mistake which made as adjusting of gratuity overvalue amount of Rs.3,403,480 on the statement of financial performance of the year was corrected. Also with this adjustment, it has been informed with that replacement financial statements for the year 2022 will be provided along with the financial statements for the year 2023 Accounting should be arranged in accurately.

- (e) Net cash flow generated from operating activities in the statement of cash flows, Although no adjustments were made for interest income of Rs.8,848,790. And therefore net cash flow generated from operating activities was overvaluing at par and net cash flow generated from investment activities was undervalue.
- In the cash flow statement of the year 2022, the calculation of interest has been shown under operating activities and not under financial activities and it has been informed that interest income will be shown under financial activities from the year 2023.
- Cash flows should be presented correctly under generating from the relevant activities.
- (f) According to the balance of financial statement on December 31 of the year under review, the cost of property, plant and equipment and the accumulated depreciation were Rs.835,999,043 and Rs.212,729,040 respectively, but according to the ledger, the balance were display as Rs.619,365,005 and Rs.44,456,544 respectively. The difference were observed as Rs.216, 634,038 and Rs.168,272,496 respectively.
- There was only the Net Depreciation Value (NDV) of the property, plant and equipment is represented in the ledger accounts for the year ending December 31, 2021 and it had been observed that from the year 2022, represented the depreciation account separately. This difference was led to the changes and based on the observations of the Auditor General in the year 2022, It was also informed that this changes was revised and only the net value of the assets would be presented in the ledger accounts from the year 2023
- The value represent the financial statement should be compare with the ledger.
- (g) An information of value deduction in assets of Rs.2,120,000 was shown under operating activities in the cash flow statement and that was not submitted to the audit.
- The value of Rs. 2,120,000 consists of double-counted asset corrections in each sector of the year 2022 and the assets that have been returned to the stock from the asset register. That it was mentioned under each section of the asset register and It has also been informed that a summary of such values will be mentioned separately from the year 2023.
- The cash flow which was consist in the cash flow statement should be confirm by in written evidence.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Accounts Guide No. 22/05 dated 13 December 2022	Although the financial statements of the year should have been submitted to on or before 28 th of February 2023 to the Auditor General, It had been submitted for audit on 09 th March 2023 after a delay of 08 days.	It has been informed that from the year 2023 , As per the Public Accounts Guidelines, the annual financial statements will be submitted for audit on or before the Due dates , It has been informed that from the year 2023	Should have work according to the instructions given

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 11,259,996 and the corresponding surplus in the preceding year amounted to Rs. 25,400,253 Therefore a deterioration amounting to Rs. 36,660,279 of the financial result was observed. The reason for the deterioration was both expenditure of Rs.15, 346,655 and the income of Rs.52, 004,886 were also decline.

2.2 Trend Analysis of major Income and Expenditure items

Compared to the previous year, the capital and recurrent grant of the Government was increased from Rs.325,700,000 to Rs.262,530,000 by 19 percent and the research and development expenditure increased by Rs. 12,459,540 to Rs.2,303,418 had decreased by 82 percent. As well as the maintenance cost had increased from Rs.15,647,987 to Rs.21,701,475 by 39 percent.

2.3 Ratio Analysis

Compared to the previous year, the current asset ratio increased from 3.5 to 4.1 and the quick assets ratio increased from 2.6 to 2.8, so the company's liquidity increased compared to the previous year.