

## **Sugarcane Research Institute - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets 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 the Finance Act, No 38 of 1971. My comments and observations which I consider should be report to Parliament in terms of 154(6) of the Constitution appear in this report.

In my opinion, due to importance the of matters described in basis for qualified opinion of this report, by the financial statements of Sugarcane Research Institute, the statement of financial performance as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Si Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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

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

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

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

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

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

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

#### **1.4 Audit Scope (Auditor's Responsibilities for the Audit of the 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 Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- The scope of the audit also extended to examine as far as possible and as far as necessary the following;

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

## 1.5 Audit Observations on Preparation of Financial Statements

### 1.5.1 Non-Compliance to the Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) Since 02 fixed deposits of Rs.64,436,187 and treasury bills of Rs.6,220,300 due in the next 12 months were shown under non-current assets, non-current assets had been overstated by Rs.70,656,487 and current assets had been understated by the same amount.	As fixed deposits and treasury funds are not held for sale or consumption during the year and will be shown under non-current assets based on the government audit recommendation of the year 2020.	Assets should be classified according to Sri Lanka Public Sector Accounting Standards.
(b) An acquisition cost of Rs.38,349,500 had been incurred for the 11.4 perches land and building purchased in year 2019 from Colombo area. While accounting for this property, the land and the building had not been accounted separately and the total cost of acquisition was accounted under buildings and the annual depreciation had been calculated.	As procurement was done to purchase the house and land as one unit for the Colombo office, the relevant value will be accounted under buildings.	According to Sri Lanka Public Sector Accounting Standards, non-current assets should be identified under the correct asset classes.
(c) The 2295 items of property and equipment costing Rs.148,248,756 were fully depreciated and shown as assets and non-current assets were understated as the estimated lifetime of those assets had not been reviewed and re-accounted.	According to Sri Lanka Public Sector Accounting Standard No.07, depreciation adjustments were made on cost or revalued value and after receiving the asset revaluation report, the respective revalued values are taken into the books.	The useful life of property, plant and equipment should be reviewed annually and dealt with accordingly.

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| (d) Due to the research allowance of Rs.892,801 related to the year 2020 were accounted as an expense in the year under review, the expense had been overstated by that amount. | Research allowance has been applied for a research started in the year 2020 and the research was completed in the year 2023, therefore that the payments have been made in that year. | Expenses related to the period should be accurately identified. |
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## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As the employee provident fund payable of Rs.1,409,325 relating to the month of December of the year under review had not been accounted, the expenditure and current liabilities for the year had been stated less than that amount in the financial statements.	Action will be taken to rectify the error of not accurately accounting the Employee Provident Fund payable of Rs.1,409,325.	Accounts payable should be accurately identified and accounted.
(b) Due to property plant and equipment depreciation expense related to the year under review had been under-calculated by Rs.840,223, the non-current assets had been overstated by that amount and the expenditure for the year had been understated by that amount.	That the action will be taken to correctly accounted the property plant and equipment depreciation.	Annual depreciation expense should be accurately calculated and accounted.
(c) The non-current assets had been understated as the value of 03 plots of land of 207.363 hectares used by the institute had not been assessed and accounted.	Since the ownership of Siambalanduwa, Deniyaya, Enesalwatte and Kantale sub-centres has not been directly transferred to the research institute and the legal proceedings are ongoing, it has not been possible to calculate and account for the values of these lands.	Land's right of use should be identified and accounted.
(d) Although the field equipment and agricultural equipment costing Rs.6,207,600 were recognized as motor vehicles in the year under review and transferred between the relevant cost accounts, the accumulated depreciation related to those assets had not been transferred between the accounts.	That the motor vehicle accumulated depreciation will be transferred from accounts and adjusted.	Correct accumulated depreciation related to assets should be accounted.

### 1.5.3 Un-authorised transactions

#### Audit Observation

- (a) Institution had implemented a medical insurance scheme using the funds released by the Treasury for recurrent expenses and the Director General of National Budget had informed in 2017 instead that the insurance should be obtained from the National Insurance Trust Fund. Without paying attention to that, Rs.10,364,935 medical allowances had been paid also during the year under review using treasury funds.
- (b) A housing loan scheme was implemented for the employees using the company's funds and by the end of the year under review, Rs.4,271,069 of housing loans from 07 employees had to be recovered. Further, the information regarding the approval obtained for the implementation of the relevant housing loan scheme was not submitted to the audit.

#### Comments of the Management

This medical insurance system has been started to provide relief to the workers in the field during the development of sugarcane cultivation and related activities and other alternative insurance methods are currently being studied.

Insurance should be obtained through the National Insurance Trust Fund.

This housing loan scheme will be implemented and maintained by maintaining a revolving account under the employee welfare activities and it will be implemented as per the Manual of Procedures (MOP) after being revised from time to time and approved by the governing board.

The loan scheme should be implemented after obtaining formal approval.

### 1.6 Receivable and Payable Accounts

#### 1.6.1 Receivables

#### Audit Observation

Receivable loan balances from 02 years to 05 years old from 03 sugar manufacturing companies amounting to Rs.4,890,951 had not been recovered.

#### Comments of the Management

That the discussions are being conducted at the ministerial level to recover the receivables from 02 government institutions i.e. Kantale Sugar Company and Lanka Sugar Company.

Amounts due from external agencies should be recovered.

## 1.7 Non-Compliance to Laws, Rules, Regulations and Management's Decisions etc.

Reference to Laws, Rules and Regulations etc.	Non-Compliance	Comments of the Management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R 107, 108, 371 (2) (b)	At the end of the year under review, a sum of Rs.2,968,668 advance had been paid to the suppliers and out of which Rs.2,574,868 advances were unsettled by the date of audit on 12 March 2024.	That the action will be taken to early settlement of the year 2024.	The relevant financial regulations should be followed.
(ii) Financial Regulation 757(2) and (4)	The board of survey reports had not been submitted to the Auditor General	That it will be prepared and reported to the Auditor General by 31.03.2024.	The relevant financial regulations should be followed.
(iii) Financial Regulation 1646	Daily running charts had not been submitted to the Auditor General.	That it will be promptly submitted to the Auditor General.	The relevant financial regulations should be followed.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs.49,180,086 and the corresponding deficit of the previous year was Rs.68,450,176. Accordingly, an increase of Rs.19,270,090 was observed in the financial result. The revenue of the year under review had been increased by Rs.25,227,666 and the increase in operating expenses compared to the previous year by Rs.5,955,980 had caused this growth.

### 2.2 Trend Analysis of major Revenue and Expenditure Objects

- The government's capital and revenue grant of Rs.262,530,000 in the previous year had increased by Rs.23,566,000 to Rs.286,096,000 in the year under review.
- Previous year's fixed deposit interest income of Rs.7,752,807 had increased by Rs.4,246,005 to Rs.11,998,812 in the year under review.

**3. Operational Review**  
**3.1 Uneconomic Transactions**

**Audit Observation**

In 2011, 400 acres of land and 13 buildings were acquired from the land owned by the Sugar Factory in order to provide facilities for research activities of supply the necessary seed sugarcane and select suitable sugarcane varieties for the area with the aim of commencement of Kantale Sugar factory. Staff of 27 persons was assigned for a period of 12 years until the year 2023 and even though the recurrent and capital expenditure of Rs.139 million had been spent, the cost incurred had been wasted due to non-commencement of the Kantale Sugar Factory.

**Comments of the Management**

That the discussion with the line ministry will be made and taken advice in writing and act accordingly.

**Recommendation**

The need to maintain the Kantale sub-centre should be reconsidered and action should be made to make proper use of its assets.

**3.2 Identified Losses**

**Audit Observation**

The 860 liters of glyphosate worth Rs.456,373 which was in the warehouse had been deducted from the stock records on 05 occasions by stating that, it had been leaked from the barrels. Proceedings in terms of Financial Regulations 103 and 104 had not been taken to recover the said loss from the responsible parties.

**Comments of the Management**

That the Store keeper has brought to the attention of the Director/C.E.O about these amounts and had been adjusted from the stock records and, it is problematic to determine the parties who are actually responsible.

The relevant Financial Regulations should be followed.

### 3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the advance of Rs.217,383 has been paid to Sri Lanka Institute of Development Administration (SLIDA) in the year 2019 for the preparation of Manual of Procedures (MOP), the Manual of Procedures had not been prepared by the end of the year under review.	That the preparation of the Manual of Procedures (MOP) is in its final stages and could be completed this year.	Advances should be settled.
(b) Rs.17,527,351 had been paid since the year 2003 to 06 officer for the study the degree program and other professional examinations. Although the course periods had been ended at the end of the year under review, it had not been confirmed to audit that the officers had completed the relevant qualifications.	Two officers were completed the degree program and they have not been able to present their certificates until conducting the graduation ceremony and the governing body of the institution has informed about the others for not completing the course and the governing body has set deadlines for them to complete the course.	Formal approval should be obtained before fees for degree courses and professional examinations are incurred from government funds.

### 3.4 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Large Mill Test for the release of sugarcane varieties SL03 983, SL03 1025 and SL03 1077, whose development activities were completed in the year 2019, had not been conducted until the end of the year under review.	That the Large Mill Test was conducted in the year 2023 for the SL 03 0336 variety, and the Large Mill Test was conducted in the year 2024 for the SL 03 1025 variety and SL 03 1077 variety and in the year 2025 for the SL 03 983 variety.	Large Mill Test should be carried out promptly.
(b) The sugarcane variety SL96128 which was introduced by the institute in the year 2012 is widely cultivated by sugarcane growers in Sri Lanka and at the time of introduction, its sugar	Efforts are currently being made to correct the situation by informing the relevant parties regarding the weaknesses in the	Special attention should be given to the introduction of improved sugarcane varieties.



absorption percentage was stated as 8.2 percent. As of the year under review, although the percentage of sugar absorption of this variety had decreased systematically to 6.5 percent and sugar production and ethanol production had decreased by 16 percent and 38 percent respectively, the institute had not identified and corrected these problems.

cultivation management activities which have caused the decrease in sugar extraction as well as the recommended matured harvesting, grinding in the prescribed time and maintaining high sugar production efficiency in the factory. That a report containing these identified deficiencies and recommendations related to sugar yield was arranged to be forwarded to the sugar factories by the Ministry of Plantation Industry in the year 2023.

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| (c) The company had not taken actions to obtain patents for a fertilizer plant nutrient product which had completed their production activities in the year under review and 05 pest products. | Patents are applied after the product has completed field trials. | Action should be taken to obtain the patent. |
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### 3.5 Controversial Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The institution had spent Rs.2,034,663 in the year under review for the electricity charges for the quarters which were provided without charging monthly rent for 48 officers.	As this institute established in accordance with the Sugarcane Research Institute Act No. 75 of 1981 is located in a remote area, with the aim of recruiting and retaining employees, under the provisions provided by this act at its commencement, the Water Supply Board provided only 04 units drinking water only for the quarters under the employee welfare activities and if used beyond the limit, action will be taken to charge.	Rent should be charged as prescribed for the quarters. The electricity charges and water charges of quarters should be borne by the concerned officers.
(b) In the year under review, the institution had spent Rs.312,674 for the water charges of the office and quarters. Information about water consumption	Established in accordance with the Sugarcane Research Institute Act No. 75 of 1981, as this institute is located in a remote area, with the aim of recruiting and retaining employees, the Water Supply Board provided drinking water	Separate water meters should be installed for quarters. The water charges should be borne by the concerned officials.

units of quarters was not submitted for audit as water meters were not installed for quarters. only for the quarters under the employee welfare activities as provided by this Act. Only 04 units will be provided and if the limit is exceeded, it will be charged.

### 3.6 Under-utilization of Fund

Audit Observation	Comments of the Management	Recommendation
Average balance of 02 current accounts maintained by the institution in People's Bank and National Savings Bank for the last 04 years is Rs.5,453,758 and focusing on investing that excess money in income generating ways had not been done.	Since the funds in these accounts are used when the receipt of money from the General Treasury is delayed or less money is received by the Sugarcane Research Institute, it has not been used for investment purposes. Nevertheless, the possibility of investing in ways of earning income will be investigated and dealt with accordingly in the future on the basis of formal approval.	Excess money in current accounts should be used effectively.

### 3.7 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<b>(a) Preparation of Estimates</b>		
From the year 2019, estimates of Rs.68,636,070 were prepared by 03 external persons and an organization for 30 construction industries and the following points are observed in this regard.		
(i) Rs.34,931,153 estimates were prepared for 10 construction industries and the contract administration fees of Rs.1,471,122 for preparation of estimates was paid into the personal account of a Deputy Resident Business Manager (Engineer) of the Mahaweli Authority.	Engineering services have been requested by the Sri Lanka Mahaweli Authority for 10 construction industries and the name and account number have been given for issuing cheques as stated in the request letter dated 08/28/2020 of the Chief Engineer of the Sri Lanka Mahaweli Authority while paying the service fees. That the payment has been made accordingly.	The cash paid to a private company should be recovered.

- (ii) Although the works related to Rs.24,411,265 estimates prepared in the year 2021 for 02 construction industries by Walawa Deputy Resident Business Manager (Engineer) using Mahaweli Authority letterheads had not been started even on 13 March 2024 which was the date of audit, Rs.976,425 was paid as estimate preparation charges into the officer's personal account.
- In relation to the estimate given by the engineer of the Sri Lanka Mahaweli Authority for the repair of the old fence and road development in Deniyaya and the construction of the wall and netfence at Deniyaya sub-station in the year 2021, due to the lack of sufficient budget allocations for the construction, it was proposed to carry out the works in several stages and for this purpose purchased materials were used taking a part of the year 2024 and the remaining parts in the coming years.
- Government fund paid into a private account without authorization should be recovered.
- (iii) In relation to 02 industries mentioned in 1 and 2 above, whose work had not been started by 13 March 2024, which is the date of audit, Rs.976,425 had been approved by the Regional Procurement Committee on 15 October 2021 to pay the estimate preparation fee. Accordingly, it is observed that the Regional Procurement Committee has acted beyond the authority as it had approved the payment of Rs.976,425 to an external person as the fees for the preparation of estimates for these construction industries, which procurement activities was not done by 13 March 2024 i.e. audit date.
- The main reason for obtaining an estimate from a chief engineer of the Mahaweli Authority which is a government agency, for the development of Deniyaya old fence and Deniyaya net-fence and wall was to mitigate the weaknesses in the previous engineering estimates as well as to reduce the idle costs incurred for that. Therefore, the committee has not acted beyond the authority as the procurement committee has recommended payment for the engineering service at the approved rate (maximum of 5%).
- Disciplinary action should be taken against the officers who acted beyond their authority.

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| <p>(iv) Rs.621,456 had been paid as estimates preparation fees for the prepared estimates of Rs.33,704,917 from two external persons and an organization for 20 construction industries and the basis of the payment of those fees and the approval for payment of fees were not submitted to the audit.</p> | <p>As they are the registered service providers of the Sugarcane Research Institute, engineering services were procured directly from them.</p> <p>Also, because of the weaknesses in the estimates of the previous engineering and technology officers, the assistance of the chief engineer of the Mahaweli Authority, a government institution was arranged and the recommendation of the procurement committee was also obtained for that.</p> | <p>Amounts paid to outside persons and institutions without formal approval should be recovered.</p>                             |
| <p>(v) As the bill of quantities required for the preparation of estimates of Rs.33,371,917 for 20 industries from 03 external persons and an organization had not prepared, the accuracy of the estimates prepared was not confirmed by the audit.</p>  | <p>Estimates and designs were procured by the institute from external engineers and bill of quantities were not obtained separately. That the action will be taken to prepare bill of quantities in future contracts.</p>  | <p>Bills of quantities should be prepared and construction estimates should be prepared accordingly.</p>                         |
| <p><b>(b) Construction of entrance road, retaining wall and gate at Deniyaya Sugarcane Seed Breeding Centre.</b></p> <p>An estimate of Rs.1,285,930 was prepared by including 15 work subjects and Rs.19,289 had been paid. The following points were observed in this regard.</p>                           |  |  |
| <p>(i) The 09 work subjects which were not included in the approved estimate had been completed and Rs.1,041,165 had been paid to the contractor without obtaining approval for that.</p>  | <p>Due to the change in the amount of work in this contract and the addition of new work parts due to the need of the institute, an external engineering estimate was obtained and approved as per the advice of the then director and the Ministry of Plantation Industry was also informed in this regard, and after the approval of the governing body of the institute, these payments were made in the year 2023.</p>                         | <p>Disciplinary action should be taken against the responsible officers regarding the payments made without proper approval.</p> |

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| (ii) Rs.163,598 was overpaid on three occasions due to overpayment of actual work done.  | Due to a mathematical error, it was printed as 3.0 meters instead of 0.3 meters during the inspection of the survey sheet and the right part of the main retaining wall, which was prepared in front of the main building, was 2.19 meters due to a measurement error and on the left side, was 1.88 meters due to a measurement error during the inspection of the survey sheets, it has been observed that overpayments have been made. Overpaid Rs.163,598 for that to be recovered from the contractor's retention money. | The overpayment should be recovered.  |
| (iii) Rs.263,603 was overpaid due to the fact that payments were made in relation to two work subjects without using the prescribed standard prices.   | That the payments were made for the relevant works subject to the approval of the procurement committee for granite embankment based on the rates given by an external engineer considering the technical issues.   | The overpayment should be recovered.  |
| (iv) Although the construction work was to be completed before 10 December 2019 as per the contract agreement, the actual date of completion was 10 April 2020 and resulting in that, there was an unsanctioned delay of 122 days. There was no provision in the contract agreement for charging late fees for additional contract period. | Due to the heavy rain during the construction of the contract given for the construction of the side wall of the entrance road of Deniyaya sub-center, the construction was delayed. The manner in which charges should be made regarding the delay period was not included in the contract agreement and action will be taken to include conditions related to charging late fees in the contract agreement in the future.   | Provisions related to charging late fees should be included in the contracts. |
| (v) Although the performance bond of Rs.60,048 related to the construction had expired on 01 February 2020, actions had not been taken to extend the period of the performance bond in accordance with the additional time taken to complete the construction.   | The audit observed that the performance bond amounting to Rs.60,048 had expired on 01 February 2020. Generally, although such activities are done correctly, action will be also taken to prevent such accidental omissions.  | Disciplinary action should be taken regarding responsible officers.           |

### 3.8 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>The post of Deputy Director (Research and Technology Transfer) from the year 2020, the post of Chief Technology Transfer Officer and the 05 posts of Chief Research Officer from creation of those posts, which is the main position essential for the research activities of the Sugarcane Research Institute established for the development of advanced commercial varieties of sugarcane in local sugarcane cultivation and conducting research for it were vacant. And also 06 posts of Senior Technical Transfer Officer and Research Officer were vacant from the year 2013 until 31 December of the year under review.</p>	<p>Requests have been submitted to the Ministry for the approval of the Management Services Department on 29.01.2024 and it has been forwarded by the Ministry to the Management Services Department on 2024.03.02.</p> <p>Although the applications were called on several occasions for the posts of Chief Research Officer and Chief Technology Transfer Officer through newspaper advertisements, that the qualified applicants did not apply.</p>	<p>Vacancies should be filled.</p>