

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2025, 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 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 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 skepticism 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 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 Corporation'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 Corporation 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties;
- 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Although, in accordance with Paragraph 118 of Sri Lanka Public Sector Accounting Standard No. 20, intangible assets must be presented as a separate class of assets in the financial statements, such action had not been taken regarding intangible assets with a cost of Rs. 3,142,674 as of the end of the year under review.	In accordance with paragraph 118 of Sri Lanka Public Sector Accounting Standard No. 20, that the computer software valued at Rs. 3,142,674, which should be recognized as an intangible asset, is presented under a separate intangible assets category in the balance sheet.	In accordance with Paragraph 118 of Sri Lanka Public Sector Accounting Standard No. 20, intangible assets should be recognized and presented as a separate class of assets in the financial statements.
(b) The value of 310 coconut trees comprising both fruit-bearing and young plants located on the institution's plantations was omitted from the financial statements because they had not been identified and accounted for in accordance with Paragraph 13 of Sri Lanka Public Sector Accounting Standard No. 18.	That the coconut trees are counted, valued, and accounted for them in accordance with Paragraph 13 of Sri Lanka Public Sector Accounting Standard No. 18.	In accordance with Paragraph 13 of Sri Lanka Public Sector Accounting Standard No. 18, biological assets should be identified and accounted for.

(c) In accordance with paragraph 13 of Sri Lanka Public Sector Accounting Standard No. 18 and paragraph 69 of Standard No. 07, although 248 yield-bearing coconut trees in the cultivated lands were identified as needing to be depreciated, the deficit had been understated due to the depreciation expenses for those coconut trees had not been accounted for.	In accordance with Sri Lanka Public Sector Accounting Standard No. 18, that the depreciation rates are determined and the depreciation expense is accounted for in accordance with Sri Lanka Public Sector Accounting Standard No. 07.	The depreciation expense of coconut trees should be accurately accounted for in accordance with the relevant accounting standards.
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1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
The institution had not been established a formal policy for the allocation of doubtful debts and a provision for doubtful debts amounting to Rs. 933,515, calculated at a flat rate of 5 per cent had been made against the trade debtors' balance of Rs.18,670,299 outstanding as of 31 December of the year under review, without considering the age analysis of the debtor balances and the ability to recover the debt. Accordingly, the provision for doubtful debts had been made at the same rate for loan balances under 6 months and those over 5 years.	Allocation for doubtful debts from the year 2026.	The recoverability of outstanding balances should be assessed, and a provision for doubtful debts made accordingly.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The total values of current assets as of the end of the previous year and the year under review had been overstated as Rs. 22,024,539 and Rs. 24,164,076 respectively, and the total values of non-current assets had been understated as Rs.22,024,539 and Rs. 24,164,076 respectively in the Statement of Financial Position.	It will be corrected in 2026 that the total values of current and non-current assets for the years 2024 and 2025 were printed with errors as Rs.22,024,539 and Rs.24,164,076 respectively.	The total value of line items of financial statement should be presented accurately.

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| (b) | Due to accruing a total estimated value of Rs. 9,239,151 as of 31 December of the year under review, in respect of 5 construction contracts agreed during the year under review and 2 construction contracts agreed in the year 2026 and debiting it to the Work-in-Progress account, Work-in-Progress and Current Liabilities in the Statement of Financial Position had been overstated by Rs. 9,239,151 each. | Steps will be taken to accrue the values of engineering-certified bills after they are obtained in future financial years. | Only work values confirmed by engineering certificates should be accrued and accounted for. |
| (c) | Due to presenting the balance of Rs.11,949,954 remaining in the Work-in-Progress account as of the last day of the year under review under current assets in the Statement of Financial Position, current assets had been overstated and non-current assets had been understated by the same amount. | That the work in progress is classified under non-current assets. | Construction work in progress should be correctly classified and reported as non-current assets. |
| (d) | The Colombo office building was revalued as of the beginning date of the year under review, and its new assessed value had been accounted for. However, when calculating the annual depreciation on the said new assessed value, total useful life had been used instead of the remaining useful life of the building; consequently, the depreciation for the year under review had been understated by Rs. 360,044. Accordingly, the net book value of buildings as of the last day of the year under review had been overstated by the same amount. | That the action will be taken to correct the accounts by calculating the depreciation value of the revalued Colombo office building based on its remaining useful life. | Action should be taken to accurately calculate the depreciation of the revalued building based on its remaining useful life and correct the relevant account balances in the financial statements accordingly. |

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| (e) | Since the value of 3 plots of land measuring 207.363 hectares utilized by the entity had not been assessed and accounted for, the value of Property, Plant and Equipment had been understated. | That the lands of Udawalawa, Deniyaya, and Siyambalanduwa centers, which are used by the Sugarcane Research Institute but have ownership issues, will also be assessed and presented in the financial statements. | It should be correctly identified and accounted for as Property, plant, and equipment in accordance with the criteria of Sri Lanka Public Sector Accounting Standard No. 07. |
| (f) | Depreciation of Rs. 574,271 calculated for the year under review on fixed assets amounting to Rs. 10,932,946 purchased through institute funds was accounted for as capital income; consequently, the deficit for the year under review and deferred income had been both understated by Rs. 574,271. | That the steps will be taken to rectify the accounts by recognizing these capital income and expenditures as capital income and expenditures pertaining to the year. | The impact of the recurrent income identified as erroneous should be removed from the relevant accounts. |
| (g) | Due to the recognition of Rs.12,905,803 in unspent capital grants remitted back to the Treasury during the year under review as deferred income in the financial statements, deferred income had been overstated and liabilities had been understated by the same amount as of 31 December of the year under review. | That the error of reporting capital funds amounting to Rs. 12,905,803, which were remitted back to the General Treasury under deferred revenue will be rectified. | Capital grants remitted back to the Treasury should be identified under the correct account and the financial statements should be corrected. |
| (h) | Due to accounting for as revenue of Rs.13,902,891 which remained unspent during the year under review and was refunded to the Treasury out of the Rs.313,220,747 received from the Treasury for recurrent expenditure, the deficit and liabilities for the year under review had been understated by that amount. | That the unspent balance of Rs. 13,902,891 in the year was refunded to the Treasury in February 2026, and the error of accounting for the said amount as revenue will be rectified. | Steps should be taken to remove incorrectly identified revenue from the accounts and to accurately account for the deficit and liabilities of the year under review. |

(i)	Due to the non-accounting of Rs.3,227,328 payable to two security service providers as of the end of the year under review, the deficit for the year and current liabilities were understated by that amount.	That the action will be taken to correct the error of failing to identify the payable amount of Rs. 3,227,328 for security services as a current liability.	Accrued expenses should be properly recognized, and the affected account balances should be corrected.
(j)	Although the gratuity expense relevant to the year under review was Rs.35,967,987, due to an amount of Rs.34,585,689 from that amount was adjusted against the prior year's deficit, the gratuity expense for the year under review had been understated by Rs.34,585,689.	The gratuity provision of Rs.32,370,628.31, which was increased in relation to prior years, should be corrected as an adjustment to retained earnings, and that the action will be taken to correct only that amount.	Transactions that have been incorrectly accounted for regarding gratuity expenses should be identified, and the affected account balances should be corrected.
(k)	In correcting the error of capitalizing the unused stock of galvanized pipes valued at Rs.2,493,635 purchased in the prior year, its total cost had been erroneously accounted for as an expense of the prior year. However, as the said stock had not been utilized for construction even as of 31 December of the year under review, retained earnings and work-in-progress had been understated by that amount.	That the galvanized pipe stock has been correctly adjusted for the preceding year, and the stock is included as current assets in the financial statements as of 31 December 2025.	The stock of unused galvanized pipes should be properly accounted for as current assets.

1.5.4 Unauthorized Transactions

	Description of unauthorized transaction	Management Comment	Recommendation
(a)	A housing loan scheme for employees was executed using the institution's funds, and a housing loan balance of Rs. 3,385,312 was receivable from 06 employees as of 31 December of the year under review. However, Treasury approval had not been obtained for the implementation of the relevant housing loan scheme.	That this loan scheme was initiated under employee welfare facilities pursuant to the powers granted by Paragraph 3, Subsection (e) of the Sugarcane Research Institute Act, No. 75 of 1981; the loan scheme was approved by the Board of	In accordance with the relevant Act, an approved fund should be established to implement welfare facilities, and the loan scheme should be executed with the approval of the General Treasury.

Governors of the Institution, and the loan amounts are recovered in installments.

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| (b) | <p>Non-compliant with Paragraph 3, Subsection (e) of the Sugarcane Research Institute Act, No. 75 of 1981, government housing had been provided to 62 officers/employees free of monthly rent without establishing a welfare fund. Furthermore, water meters had not been installed for the said quarters, and water was supplied to them through the main water supply of the institution, and the respective private water bills had been settled using Treasury funds. Additionally, during the year under review, Treasury funds amounting to Rs.1,037,236 had been spent on electricity charges for those quarters.</p> | <p>It is noted that, in accordance with the powers granted under Paragraph 3, Subsection (e) of the Sugarcane Research Institute Act, No. 75 of 1981, and with the approval of the Board of Governors, a limited number of electricity units are provided free of charge for official quarters with the objective of employee welfare.</p> | <p>An approved welfare fund should be established in accordance with the provisions of the Act, and approved welfare facilities should be implemented through the said fund.</p> |
| (c) | <p>A Staff Revolving Loan Fund was established to grant loan facilities to the staff, and a savings account and a current account had been opened at a government bank for that purpose. As of 31 December of the year under review, there was a total balance of Rs. 4,564,462 in those bank accounts, formal approvals required for establishing the relevant loan fund, utilizing Treasury funds for the same, and opening the bank accounts had not been obtained.</p> | <p>It is stated that at the Board of Governors meeting held on 28 May 2007, a decision was made to establish a loan fund to grant loans to staff members, and to open a current account and a savings account at the Udawalawe People's Bank for that purpose.</p> | <p>The relevant loan scheme should be implemented after obtaining the approval of the General Treasury.</p> |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

Action had not been taken to recover a sum of Rs. 6,319,136 due from four sugar manufacturing companies over a period ranging from 2 to 5 years.

Management Comment

That the continuous reminders are being issued to collect the receivables, and the relevant line ministry has also issued letters to the aforementioned sugar companies, instructing

Recommendation

Appropriate action should be taken to promptly recover the dormant loan balances.

them to settle the outstanding payments immediately.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 55,327,592 and the corresponding deficit in the preceding year amounted to Rs. 36,221,723. Therefore a deterioration amounting to Rs. 19,105,869 of the financial result was observed. The reason for the deterioration is the decline in revenue for the year under review compared to the previous year's revenue.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
In the year 2011, an extent of 400 acres of land and 13 buildings belonging to the Kantale Sugar Factory had been handed over to the Sugarcane Research Institute for the purpose of initiating the Kantale Sugar Factory, with the objective of providing necessary seed cane and facilitating research activities, including the selection of sugarcane varieties suitable for the region. Although the Institute had deployed a staff of 15 persons for the said operations and incurred Rs. 157.1 million as recurrent and capital expenditure over a 14 year period from 2011 to 2025, the intended objectives from the expenditure had not been achieved due to the non-establishment of the Kantale Sugar Factory.	That the written requests have been submitted to the Ministry seeking the necessary approval to close down the said center.	The necessity of continuing this center and its functionality should be reviewed, and appropriate action should be taken to utilize its existing assets in an effective and economical manner, or deploy them for a beneficial alternative purpose.

3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) A further sum of Rs. 1,714,438 had been reimbursed during the year under review in respect of medical bills for the previous year to 84 officers who had already fully utilized their maximum medical assistance limit for that year. Accordingly, payments had been made to the officers concerned	One of the conditions for the reimbursement of medical bills is that payments are made for bills submitted within a month; such payments remain legally valid for the subsequent 02	Action should be taken in accordance with the instructions of the Treasury regarding the insurance scheme.

in excess of the approved medical assistance limit.	years, and payments made in 2025 were in respect of original bills submitted in the preceding year for which no remaining balance was available.
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| (b) | An overpayment totaling Rs. 145,484 had been made during the year under review to 08 officers based on bills pertaining to the previous year, in excess of their medical assistance allowance balance brought forward from that year. | It is stated that these payments were made in accordance with a provision that permits medical reimbursement bills for hospitalizations to be settled in the year under review using the remaining balances from the preceding 02 years. | Action should be taken in accordance with Treasury instructions regarding the insurance scheme. |
| (c) | During the year under review, income from coconut harvesting had been recorded for only a single harvest cycle. Accordingly, estimated revenue of approximately Rs. 780,000 receivable from at least 6,000 coconuts across 03 unrecorded harvest cycles (based on prices published by the Coconut Development Authority) had not been recorded. Furthermore, due to the 2,535 harvested coconuts were issued to officers of the Institute at Rs. 15 per nut without adhering to a formal procurement procedure during the year under review, a revenue loss of Rs. 329,550 had been occurred. | It is stated that these coconut trees are not maintained as a commercial plantation, and that the coconuts produced are of very small size due to mite infestations and the non-application of fertilizers and pesticides; consequently, no action was taken to sell them in the open market, the yield was distributed among employees at a nominal rate of Rs. 15 per nut as a staff welfare activity and that coconut harvesting was conducted only in August 2025 as the crop yield was insufficient to harvest four times a year. | Action should be taken to formally record state assets and their yield, ensuring they are managed and utilized in an efficient and effective manner. |

3.3 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Due to the delay in appointing the Governing Board of the institution, the delegation of financial powers to the relevant officers for the year under review, pursuant to Financial Regulation 135, had been delayed until	That the approval for the delegation of authority to properly maintain administrative activities was requested from the Ministry of Industry and Entrepreneurship	Action should be taken to formally delegate financial powers to the relevant officers prior to the commencement of the financial year, in

June 16 of the year under review. Accordingly, financial administrative activities had been carried out without formal authorization during the period from January 01 to June 15 of the year under review.

Development on 19 December 2024, due to the non-appointment of the Board of Control at the end of 2024 and the beginning of 2025 and approval of the Board of Control was obtained at the end of May 2025, and financial authority was delegated accordingly.

accordance with Financial Regulation 135.

- (b) According to the minutes of the Board of Directors' meetings for the year under review and the preceding year, the Governing Board had not been determined adequate actions regarding the recovery of outstanding CESS levy amounting to Rs. 15,586,298.

That the continuous reminders are being issued to collect the CESS receivables, and the line Ministry has also written to the sugar companies instructing them to settle the relevant amounts expeditiously.

The Governing Board should be determined and implemented the adequate actions to recover the outstanding CESS levy amounts.

3.4 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The entity had not been taken action to obtain patent licenses for a plant nutrient (fertilizer) product and 05 pesticide products, the manufacturing operations of which were completed by the entity in previous years.	That the process of applying for the patent license for this new product was initiated, and since the functions of the Corporate Business Relations Unit is currently temporarily suspended, the patent application process being carried out through it has also been disrupted at present.	Action should be taken to expedite the process of obtaining patent licenses for the products and to safeguard their intellectual property rights.

3.5 Under-utilization of Funds

Audit Issue	Management Comment	Recommendation
A capital grant of Rs. 40 million had been budgeted for the year under review, of which only Rs. 24 million had been received in November 2025. Due to insufficient time to implement the planned capital works, Rs.12,905,803 representing 54 percent of the received funds, remained unspent and had been returned to the Treasury.	That the reasons caused for this include the delay in appointing the Board of Control, delays in procurement activities, and the delay in receiving capital allocations until November 2025.	Arrangements should be made to obtain the imprest in sufficient time to cover the expenses.

3.6 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
(a) From the year 2019 up to the end of the year under review, estimates for 30 construction projects had been prepared by paying fees to external entities. From the year 2019 up to the end of the year under review, estimates had been prepared for 30 construction projects by paying fees to external parties. Among these, in the year 2021, a sum of Rs. 976,425 had been paid as estimate preparation fees to a personal bank account of an officer of the Mahaweli Authority, who had prepared and submitted estimates totaling Rs.24,411,265 for two construction projects using the official letterhead of the Mahaweli Authority. However, the construction works related to the two estimates had not been commenced even by 13 March 2026. Furthermore, although estimates totaling Rs.33,704,917 were obtained from two external individuals and one institution for another 20 construction projects and of Rs. 621,456 had been paid, the basis for paying these fees and the relevant approvals obtained had not been submitted for audit.	That the sum of Rs. 976,425 was recovered by the Mahaweli Authority, after the identification based on the audit observation that the sum of Rs.976,425 had been paid into his personal account, all construction activities have been temporarily suspended due to issues regarding the land at the Deniyaya Sub-Center, the relevant engineering services were directly obtained from 02 registered service providers, and the payments due for the same were made upon the approval of the Procurement and Technical Evaluation Committees,	Disciplinary action should be initiated against the responsible officers for making payments of state funds to external individuals and entities without formal approval, and investigations should be conducted to recover any loss incurred by the government.
(b) An estimate of Rs. 1,285,930, including 15 items of work had been prepared for the construction of the access road, retaining wall, and gate of the Deniyaya Sugarcane Seed Breeding Center, and a fee of Rs. 19,289 had been paid to an external individual for the preparation of the said estimate. However, a sum of Rs.1,041,165 had been paid to the contractor without proper approval for 09 items of works that were not included in the approved estimate. Furthermore, an overpayment of Rs.263,603 had been made for 02 items of work without utilizing standard rates, and the payments	That the officers of the institution at the time had conducted a field inspection to execute essential items of work not included in the original contract estimate, and has instructed the same contractor to carry out those relevant works, the another civil engineer has recommended an amount of Rs.1,492,466 for the said work items, action was subsequently taken to disburse a sum of Rs.1,041,165 upon approval of the Board of Management, in accordance with the prices	Necessary action should be taken regarding the responsible officers for payments made without proper approval and the liability for the excess payments should be determined and action should be taken to recover the financial loss

made for these additional works also included a payment of Rs. 51,000 pertaining to 03 subjects of work belonging to a different industry.

recommended by a Technical Evaluation Committee including a Technical Officer from the Divisional Secretariat and the action was also taken to payment a sum of Rs. 51,688 for 03 work items not included in the original contract, based on the recommendations and approval of the Technical Procurement Committee.

incurred by the government.

3.7 Human Resources Management

Audit Issue	Management Comment	Recommendation
As of 31 December of the year under review, the positions of Director (Chief Executive Officer) and Deputy Director (Administration) had remained vacant since the preceding year, while the position of Director (Research & Technology Transfer) had been vacant since 2020. A total of 80 positions remained vacant, including 10 key posts comprising the Chief Technology Transfer Officer, 05 Chief Research Officer positions, and the Senior Technology Transfer Officer position.	As of 31 December of the year under review, 80 positions remained vacant, including the positions of Director (Chief Executive Officer) and Deputy Director (Administration) vacant since the preceding year, the position of Director (Research & Technology Transfer) vacant since year 2020, as well as 10 key positions comprising the Chief Technology Transfer Officer, 05 Chief Research Officers, and the Senior Technology Transfer Officer.	Essential positions affecting the performance and efficiency of the institution should be identified, and necessary action must be taken to fill those positions expeditiously.