

## **Sugar Cane Research Institute -2011**

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### 1. Financial Statements

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#### 1:1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sugar Cane Research Institute as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 1:2 Comments on Financial Statements

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##### 1.2.1 Sri Lanka Accounting Standards

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The following observations are made.

- (a) Contrary to Sri Lanka Accounting Standard 3, a sum of Rs.2,700,020 payable to a company not existing physically had been credited to the Translation Reserve Account as prior year adjustments instead of being credited to the Statement of Financial Activity of the year under review.
- (b) The fixed deposits amounting to Rs.30,520,313 and the Treasury Bills amounting to Rs.113,918,248 with a maturity period of one year, belonging to the Institute had been shown as cash and cash equivalents in the cash flow statement contrary to Sri Lanka Accounting Standard 9. Even though the decrease in the deferred interest income for the year 2011 identified in the year 2010, should have been identified as a part of the movement of working capital, that deferred interest income of Rs.7,853,601 had been adjusted to the profit as a non-financial item.
- (c) Out of the Reserve of Rs.27,920,000 created in the preceding year from the revaluation of property, plant and equipment, a sum of Rs.6,980,000 had been credited to the income in the year under review contrary to Sri Lanka Accounting Standard No.18.

(d) Even though the sum of Rs.145,285,139 shown in the accounts as the Accumulated Fund included grants amounting to Rs.100,925,139 received from foreign institutions, those had not been brought to account in terms of Sri Lanka Accounting Standard No.24.

1:2:2 Accounts Receivable and Payable  
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The balances receivable amounting to Rs.1,759,644 and Rs.5,100, old between 2-3 years and over 5 years respectively had not been recovered by the Institute.

1:2:3 Lack of evidence for Audit  
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The accuracy of debtors and creditors balances amounting to Rs.3,133,133 and Rs.2,402,491 respectively could not be established due to the unavailability of confirmations.

1:2:4 Non-compliance with Laws, Rules and Regulations  
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Non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) Financial Regulation 103(1)	Action in terms of this regulation had not been taken on the losses amounting to Rs.19,436 caused by accidents to 02 motor vehicles in the year 2011.
(b) Financial Regulations 104(3) and (4)	The Preliminary reports and full reports on the above accidents had not been presented.
(c) Financial Regulations 1645 and 1646	The Daily Running Charts and Monthly Performance Summaries relating to 50 motor vehicles had not been presented to the Auditor General.

2. Financial Review  
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2:1 Financial Results  
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According to the financial statements presented, the operations of the Institute during the year under review had resulted in a surplus of Rs. 19,495,035 as compared with the corresponding surplus of Rs.29,929,279 for the preceding year, thus indicating a deterioration of Rs.10,434,244 in the financial results. The increase in the depreciation in the year 2011 by a sum of Rs.8,624,999 as compared with the year 2010 had been the main reason for the deterioration of the financial results for the year under review.

2:2 Analytical Financial Review  
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The following observations are made.

(a) According to the financial statements the following data point out the variances in the financial results for the year under review and the preceding year.

Item -----	Year Under Review ----- Rs.	Preceding Year ----- Rs.	Percentage of Increase/ (Decrease) over Preceding Year ----- %
Operating Income	169,004,476	163,361,328	3
<u>Less</u>			
Operating and Financial Expenses	(149,509,441)	(133,432,049)	12
Surplus/(Deficit)	19,495,035	29,929,279	(35)

(b) According to the financial statements, the variances of the items in the statements of financial position of the preceding year and the year under review are given below.

Item	Year Under Review	Preceding Year	Percentage of Increase/ (Decrease) over Preceding Year
	Rs.	Rs.	%
Reserves	118,244,839	164,110,711	(28)
Revaluation Reserve	20,940,000	27,920,000	(25)
Non-current Liabilities	33,789,530	37,873,914	(11)
<u>Utilization</u>			
Property, Plant and Equipment	71,690,896	88,755,317	(19)
Investments	30,020,313	29,500,113	2
Net Current Assets	216,548,299	256,934,334	(16)

### 3. Operating Review

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#### 3:1 Performance

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#### Introduction and Expansion of New Varieties of Sugar Cane

One of the objectives of the establishment of the Sugar Cane Research Institute is the introduction of new varieties of sugar cane and extension of such new findings to the local sugar cane industry. Whether the Institute is taking action to achieve the objective had become a questionable issue. The data on introduction of varieties of Sugar Cane and the extension are analyzed below.

Variety	Year of Introduction	Area Cultivated (Acres)	Percentage of Extension
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SL-8306	1994	6133.00	48.4
SL-88116	2001	26.00	0.20
SL-88238	2002	64.42	0.50
SL-8613	2002	-	-
SL-891673	2009	2.00	0.01
SL-924918	2009	11.00	0.08
SL-924997	2009	10.00	0.08
SL-925588	2009	3.52	0.03
SL-954033	2011	-	-
SL-954030	2011	-	-
SL-96328	2011	-	-
Co-775		2792.00	22.00
M-43859		2589.00	20.41
SL-7130		90.00	0.70
SLI-121		19.00	0.15
Others		939.19	7.27
<b>Total</b>		<b>12679.13</b>	

The following observations are made.

- (a) The new sugar cane varieties found through the researches in the year under review had not been adequately extended to the industry as in the preceding years. Even though a sum of Rs.5,623,630 had been spent in the year 2010 on research activities a new variety of sugar cane had not been introduced.
- (b) The variety SL8306 introduced in the year 1994 only had been acquired by about 50 per cent of area cultivated with sugar cane at present. Even though the Institute had spent a long period and considerable resources on the recently introduced new varieties of sugar cane the percentage of extension of those to the industry had not been at a substantial level.

3.2 Management Inefficiencies

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The following observations are made.

- (a) The Institute continues to carry out research work on a land 05 acres in extent at Siyambalanduwa and on Land 5.5 hectares in the Enselwatta, Deniyaya without securing the legal ownership of those lands.
- (b) The following weaknesses in the process of levying a Cess on the imported sugar were observed.
  - (i) The process of collection of Cess on imported sugar up to the process of accounting which is the source of income of the Institute (about Rs.10 to 14 million monthly) is being handled by two officers. As such a proper internal control, distribution of work and supervision had not been exercised.
  - (ii) A photocopy of the Customs Entry had not been kept in the files of the Institute and as such the accuracy of the letters of information on each imported stock prepared by indicating the Customs Entry number could not be examined in audit.
  - (iii) A limited number of businessmen import sugar in large scale subject to a bond with Sri Lanka Customs and stored in the bonded warehouses. Nevertheless, the Institute does not obtain the data on such large scale imports of sugar from the Customs and carried out a reconciliation with the Ex-bond sales of such sugar.

3.3 Underutilization of Funds

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Even though provision amounting to Rs.5,704,500 had been made in the year under review for the implementation of the Enselwatta Project as a development project, the project had been totally abandoned.

3.4 Idle and Underutilized Assets

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The following observations are made.

- (a) A motor vehicle garaged in an external garage for repairs had been idling for a period of 09 months from 07 December 2010.

(b) Even though the Institute had purchased 02 tractor tyres for Rs.108,600 (Rs.54,300 x 2) in the year 2008, those tyres could not be used for the tractors of the Institute up to date. In addition a stock of chemicals and other items of stock had been purchased for research purposes without any planning and as such those had been idling over a long period. The value of those amounted to Rs.55,330.

### 3.5 Identified Losses

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The following observations are made.

(a) The Director General of Public Enterprises had, by his letter No.PED/80/Gen dated 03 June 2011, approved that a cess of 10 cents per kilogramme of sugar produced by the local manufactures of sugar should be levied with effect from 23 September 2010. The cess income of Rs.699,700 due on 6,997 Metric Tons of sugar manufactured by one local manufacturer in the year 2010 had not been received by the Institute. The data relating to the other local manufacturer had not been made available to the Institute up to date. Nevertheless, the cess on the manufacture of sugar in the years 2010 and 2011 had not been computed and brought to account up to date.

(b) A reconciliation of the records maintained by the Institute on the cess income collected on the import of sugar with the respective records obtained from the relevant Superintendent of Customs revealed that 1,277,900 kilogrammes of sugar had been imported from January to June 2011 without issuing Cess certificates and the cess income deprived to the Institute from that amounted to Rs.319,475.

### 3.6 Delayed Projects

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Three projects with provisions amounting to Rs.1.63 million scheduled for implementation according to the Action Plan for the year under review had not been implemented by the Engineering Division.

3.7 Resources of the Institute supplied to other Government Institutions

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Contrary to the instructions in Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, two motor vehicles of the Ministry had been released to the line Ministry.

4. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Motor Vehicles Control.
- (c) Stores Management
- (d) Utilization of Assets
- (e) Debtors and Creditors
- (f) Levy of Cess
- (g) Maintenance and Constructions