

Sugar Cane Research Institute - 2012

1. Financial Statements

1:1 Qualified Opinion

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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Accounting Policies

Accounting for the cess income which is the major source of income of the Institute on the cash basis had been the policy of the Institute. Cess income amounting to Rs.5,057,250 receivable in respect of the year under review had been shown in the financial statements without complying with that policy. As such, the income for the year under review had been overstated by a sum of Rs.5,057,250 and the deficit for the year under review had been reduced and the current assets had been increased by that amount.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) Even though the sum of Rs.68,000,000 given to the Ministry of Finance and Planning in the year 2011 had been appropriately adjusted in the financial statements of that year, it had been added to the opening balance of the Statement of Changes in Equity for the year 2012 and deducted again as money given in the year under review.

- (b) Two motor vehicles purchased for Rs.6,500,000 in the year 2013 had been included in the financial statements of the year under review. As such, the assets and liabilities in the Statement of Financial Position had been overstated by Rs.6,500,000.

1:2:3 Accounts Receivable and Payable

The following observations are made.

(a) Accounts Receivable

The debtors age analysis presented with the financial statements for the year 2011 had been presented without making changes with the financial statements for the year 2012 as well. The Institute had failed to recover a balance of Rs.1,955,612 relating to periods ranging between 02 years and 05 years and a balance of Rs.5,100 older than 05 years according to the correct age analysis.

(b) Accounts Payable

Out of the total of the balances of creditors amounting to Rs.8,737,186, 04 creditors balances amounting to Rs.881,222 had been existing over a period exceeding 01 year and action had not been taken to settle those creditors balances.

1:2:4 Lack of Evidence for Audit

The evidence indicated against the following items had not been furnished to audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
Debtors	2,147,456	Letters of Confirmation of Balances
Creditors	8,737,186	Letters of Confirmation of Balances

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.7,900,416 as against the surplus of Rs.19,495,035 for the preceding year. The operating results for the year under review as compared with the preceding year indicated a deterioration of Rs.27,395,451. The decrease of the cess income by a sum of Rs.4,795,630 and the increase of Rs.22,197,015 in the operating expenses, Rs.3,906,167 in the foreign travel expenses, Rs.3,891,296 in the maintenance expenditure and Rs.3,975,481 in the expenditure on research and development in the year under review had affected the deterioration in the operating results.

2:2 Analytical Financial Review

- (a) The expenditure on foreign travel, transport expenses and the expenditure on research as compared with the preceding year had increased by 417 per cent, 50 per cent and 67 per cent respectively.
- (b) The inclusion of an accrued expenditure relating to the year 2013 in the financial statements for the year under review had resulted in the increase of the accounts payable by 117 per cent.

2:3 Legal Actions instituted by the Institute or against the Institute

- (a) Institute had filed two cases against two persons who served in the Institute and those cases were pending even by the end of the year under review.
- (b) Institute had filed a case against an officer who had vacated post, claiming compensation amounting to Rs.2,974,960 and that case was pending even by the end of the year under review.

3. Operating Review

3:1 Management Inefficiencies

The following observations are made.

(a) Collection of Cess

Sugar imported in large scale by businessmen subject to a bond with Sri Lanka Customs is stored in the bonded warehouses and the cess on those sugar stocks is collected when such sugar is issued from the bonded warehouses. The Institute had not obtained the records of such large scale imports of sugar from Sri Lanka Customs and checked with the Ex-bond Sales. As such, adequate evidence in support of the recovery of the cess on the total quantities of sugar in installments had not been furnished to audit.

(b) Maintenance Unit

- (i) Plans had been made for 12 maintenance and construction works to be executed up to September of the year under review. Nevertheless, the cost estimates showing the budget specifications of the activities had not been prepared.
- (ii) Even though the overall expenditure of the Maintenance Unit had been identified, there was no expenditure control on the individual activities as the item-wise expenditure had not been identified.
- (iii) Three programmes included in the proposed Action Plan prepared for execution in the year under review had not been implemented.

(c) Stores Division

A proper Bin Card System had not been introduced for the maintenance of stock records of the Main Stores of the Institute.

(d) Register of Fixed Assets

- (i) Certain assets appearing in the updated Register of Fixed Assets were not available physically while certain assets physically available had been omitted in the Register of Fixed Assets.
- (ii) The fixed assets issued by the Stores Division of the Institute had not been issued under a proper coding system.

3:2 Operating Inefficiencies

The following observations are made.

- (a) Even though the Institute had introduced a number of varieties of sugar cane with high sugar content by incurring heavy expenditure during the 15 preceding years, the results of the researches had not been successful as those varieties had not spread among the farmers.
- (b) Even though the Institute had introduced sugar cane varieties with high sugar content, the buyers of sugar cane had based their purchases on the weight and size of sugar cane instead of the sugar content of the sugar cane. As such the farmers had been reluctant to grow the new varieties. As such, the crop from the extent of lands under cultivation had decreased, thus resulting in the decrease of the quantity of local sugar production.

3:3 Transactions of Contentious Nature

The following observations are made.

The Engineering Division conducts research programmes on the machinery relating to the sugar cane cultivation and invents equipment relating thereto and in addition maintains the motor vehicles of the Institute. This Division had planned to implement 09 Research Projects and Research Service Projects during the year 2012. The following matters were observed at a test check carried out in that connection.

(a) Projects on the Introduction of a Sugar Cane Harvester (MT/01/11)

A sugar cane harvester suitable for the local cultivations had been invented in the preceding years with the objective of enhancing the efficiency of sugar cane harvesting and reducing the cost of harvesting sugar cane and tested. According to the Action Plan prepared by identifying the need for carrying out that work in the year 2012 as well, provision amounting to Rs.440,000 had been made. Nevertheless, none of the activities relating to the Research Project had been carried out even by the end of the year under review.

(b) Project on the Introduction of a Sugar Cane Refuse Cutter (MT/02/11)

The Institute had planned to introduce a highly efficient sugar cane refuse cutter as a successful remedy for overcoming the weaknesses in harvesting sugar cane and for minimizing labour costs. Even though provision of Rs.560,000 had been made for the Project in the Action Plan, only the preliminary working designs of the Project had been prepared even by the end of the year under review.

(c) Design and Creation of Sugar Cane Seed Separator

Even though a provision of Rs.810,000 had been made in the Action Plan for this Project, none of the activities relating to that had been carried out in the year 2012.

3:4 Idle Assets and Underutilised Assets

Six refrigerators recommended as usable after repairs, had been left decaying for 03 years in the stores without being repaired.

3:5 Delayed Projects

- (a) Even though provision amounting to Rs.66,000,000 had been made in the budget for the year 2012 for the implementation of the following Projects, it had not been utilized in the year under review as the Treasury approval had not been received. Details appear below.

Name of Project	Provision made
-----	-----
	Rs.
Construction of a Laboratory Complex and a Development Centre – Udawalawa	65,000,000
Construction of a Centre for Entomological Studies	1,000,000

Total	<u>66,000,000</u>

- (b) Even though provision amounting to Rs.2,000,000 had been made in the budget for the year 2012 for the construction of a Center for Culture of Sugar Cane flowers, the construction work had not been commenced even by the end of the year. A sum of Rs.179,505 had been spent in the year 2012 for the foundation laying and the inauguration ceremony.

3:6 Staff Administration

The following observations are made.

- (a) The position of the Cadre as at 31 December 2012 is given below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
Senior Level	09	06	03
Tertiary Level	25	19	06
Secondary Level	52	36	16
Primary Level	<u>107</u>	<u>102</u>	<u>05</u>
	<u>193</u>	<u>163</u>	<u>30</u>

- (b) Even though 02 years had elapsed after the publication of newspaper advertisements for the filling of 06 vacancies in the Management Assistant posts in the Institute, the vacancies of those posts had not been filled even by the end of the year under review.
- (c) As the posts of Management Assistant (Clerk/Accounts) Book keeper, Accounts Officer had been vacant, work relating to cash transactions and accounting of the Accounts Division had not been properly assigned.
- (d) Due to the vacancies existing in the staff of the Accounts Division, bookkeeping works and preparation of the final accounts had been assigned to an external audit firm for an agreed sum of Rs.250,000.

3:7 Motor Vehicles Utilisation

The following observations are made.

- (a) Repairs to the motor vehicles of the Institute had been carried out through the Mechanical Technology Division of the Institute as well as other external institutions. Cost-estimates and a Cost Accounting Methodology were not available for the 96 repair works of motor vehicles done by the Mechanical Technology Division in the year under review for identification of the cost incurred.
- (b) The value of certain repair work done for each motor vehicle by the external institutions was not available in the respective files on motor vehicles.

04. Systems and Controls

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

- (a) Accounting
- (b) Cess Income
- (c) Fixed Assets
- (d) Storage