

Sugar Cane Research Institute - 2013

The audit of financial statements of the Sugar Cane Research Institute for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 19(3) of the Sugar Cane Research Act No.75 of 1981. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on financial statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Standard No. 02

- (i) Even though only the short term liquid assets of a short maturity of 3 months or less, can be stated as cash equivalents fixed deposits of Rs.37,600,383 had been shown in the cash flow statement as cash and cash equivalents.
- (ii) Even though a sum of Rs.2,571,702 paid as gratuities should be shown in the cash flow statements separately under operating activities, it had been shown as cash flows from financing activities.

(b) Standard No. 03

Even though the accounting policy on cess income of the Institute had been the cash basis up to the year under review, it had been changed to cash basis on imported sugar and to accrual basis on locally manufactured sugar. This had not been disclosed in the accounts. If an accounting policy is changed that change should be accounted in accordance with retrospective application but the financial statements had not been prepared accordingly.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Biological assets valued at Rs.367,875 belonging to the Institute had been disclosed under notes to the accounts without disclosing in the financial statements.
- (b) Even though the total interest income relating to the year under review amounted to Rs.18,511,906 it had been shown in the final accounts as Rs.20,444,601 and as such an interest income of Rs.1,932,695 had been overstated in the accounts.

2.2.3 Unexplained Differences

The following observations are made.

- (a) The Revaluation Reserve of Rs.20,940,000 shown in the financial statements for the year 2012 had been shown under General Reserve in the year under review without being separately identified.
- (b) Even though a sum of Rs.1,022,500 had been shown in the accounts as receivable in respect of the supply of sugar cane to a sugar company, according to the information made available for audit the value of receivable amounted to Rs.361,845 thus indicating a difference of Rs.660,665. Action had not been taken to identify the reasons for the difference and to rectify the difference.

2.3 Accounts Receivable and Payable

(a) Accounts Receivable

The following observations are made.

- (i) According to the debtors age analysis presented along with the financial statements for the year under review, the total debtors balance amounted to Rs.11,576,680 whereas according to the financial statements the balance was Rs.14,374,932 thus showing a difference of Rs.2,798,252.
- (ii) Even though a sum of Rs.1,000,000 receivable from a sugar company remained recoverable for more than 3 years, it had not been included in the debtors age analysis. Further, sums of Rs.6,765,668 and Rs.1,012,094 of total debtors had remained outstanding for more than 3 years and 4 years respectively. Sufficient action had not been taken to recover these debts.

(b) Accounts Payable

The following observations are made.

- (i) A balance of creditors amounting to Rs.683,271 had remained without being settled for more than 2 years.
- (ii) Even though the balance of refundable tender deposits amounted to Rs.181,250 it was shown as Rs.126,750 in the age analysis.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year under review had resulted in a deficit of Rs.28,875,134 as compared with the deficit of Rs.7,900,416 for the preceding year. Decrease in ccess income by Rs.6,500,921 and increase of operating expenses by Rs.17,452,051 in the year under review had been the main reasons for the increase of deficit for the year under review as compared with the preceding year, by a sum of Rs.20,974,718.

3.2 Analytical Financial Review

The following observations are made.

- (a) Supplies and consumable expenses, financial expenses and maintenance expenses had increased by 65 per cent, 594 per cent and 29 per cent respectively as compared with that of the preceding year.
- (b) Accounts payable had increased by 82 per cents as compared with that of the previous year. A sum of Rs.7,800,000 included therein payable to a private firm for the purchase of tractors had been the reason for this increase.

3.3 Legal Cases initiated against the Institute

A case had been filed in the Courts against the Institute by an employee of the Institute who had been dismissed from service.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) According to the order made, 10 cents cess should be recovered per every kilogram of sugar manufactured by the Local sugar manufacturers. Accordingly, a cess amounting to Rs.3,382,688 was due from three local sugar manufacturing institutions relating to the year 2012. Action had not been taken to compute and recover the cess relating to the year under review, by obtaining information about the sugar manufactured by those institutions.
- (b) Despite there were 112 labourers on permanent, contract and casual basis as at 31 December of the year under review, 7,681 Labour units had been obtained from a farmer`s organization for the 12 months period from January to December for the seed sugar project, and paid a sum of Rs.5,952,775 thereon.

4.2 Personnel Administration

The approved cadre and the actual cadre of the Institute amounted to 209 and 168 respectively. Vacancies existed in 04, 09 and 10 posts in the senior, tertiary and secondary levels required for operating activities respectively and 18 at primary level posts.

5. Systems and Controls

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

- (a) Accounting
- (b) Collection of Cess Income
- (c) Storage