

## **Kantale Sugar Industries Limited – 2015**

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The audit of financial statements of the Kantale Sugar Industries Limited for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement and the statement of changes in equity 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. My comments and observations which I consider should be published with the Annual Report of the Industries appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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**

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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 Auditing 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Industries' 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 Industries' 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 financial statements.

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

### **1.4 Establishment and Ownership of the Industries**

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Kantale Sugar Industries Limited has been established under the Companies Act, No.17 of 1982 and again registered under the Companies Act, No.07 of 2007. This is a State Company fully owned by the Government.

## **1.5 Basis for Adverse Opinion**

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Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

## **2. Financial Statements**

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### **2.1 Adverse Opinion**

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In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Kantale Sugar Industries Limited as at 31 December 2015 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Going Concern of the Industries**

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Kantale Sugar Industries which had the capacity for contributing to the Gross Domestic Product 16,320 metric tons of sugar by crushing 192,000 metric tons of sugar cane within 160 days of crushing turns at the rate of 1,200 metric tons of sugar cane per day and a quantity of 3.9 million litres of rectified spirit from the Distillery through processing 9,000 metric tons of molasses per year produced at 30 metric tons per day (in 300 days) had been taken over temporarily by the Government on 01 September 1993 and compensation had been paid to 1,139 employees. Nevertheless, the Industries had been closed down from 31 March 1994 without any production activity whatsoever.

As a result, the assets belonging to the Industries could not be made use of. Moreover, salaries had to be paid annually to 39 present employees from Treasury provisions. As such, the going concern of the Industries is uncertain.

#### **2.2.2 Sri Lanka Accounting Standards**

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##### **(a) Sri Lanka Accounting Standard 01**

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The following observations are made.

- (i) The cash flow statement which should be included in a complete set of financial statements in terms of Paragraph 10 of the Standard had not been presented and the statement of changes in equity and notes of accounts had not been properly prepared.

- (ii) The accounting basis used in the preparation of financial statements and the accounting policies used for understanding the financial statements, had not been disclosed in the financial statements in terms of Paragraph 117 of the Standard.

(b) Sri Lanka Accounting Standard 02  
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The following observations are made.

- (i) Instead of disclosing the stock at the cost or the net realisable value whichever is less in terms of Paragraph 09 of the Standard, the stock of Rs.47,440,818 had been shown at book value in the financial statements.
- (ii) An old stock of farm food valued at Rs.17,410 remaining from the period prior to the year 2010 had been included in the stock value and either an allocation of provisions thereto or a write off of stocks had not been done during the current year.

(c) Sri Lanka Accounting Standard 07  
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A sum of Rs.7,837 not considered as balances of cash and cash equivalents in terms of paragraph 07 of the Standard had been shown as balances of cash and cash equivalents.

(d) Sri Lanka Accounting Standard 16  
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The following observations are made.

- (i) Fixed assets valued at Rs.48,323,446 shown in the financial statements had been depreciated based on the total value without considering the dates on which those became suitable for use.
- (ii) Lands and buildings valued at Rs.42,501,105 had not been brought to account separately in terms of Paragraph 58 of the Standard and as such, lands with an unlimited life had been depreciated.
- (iii) The residual value and the useful life of an asset should be reviewed at least at the close of each financial year in terms of Paragraph 51 of the Standard and, if expectations differ from previous estimates, the changes should be accounted for as a change in an accounting estimate in terms of Sri Lanka Accounting Standard No.08 and should be recognised by including in the surplus or deficit (income statement) of the current year. Nevertheless, the value of depreciation of Rs.5,640,303 in respect of fixed assets computed relating to the 4 preceding years of the Industries had been adjusted on the accumulated profit of the preceding years.

- (iv) Disclosures which should be made relating to fixed assets in terms of the Standard had not been shown in the financial statements.
- (v) Work- in- Progress valued at Rs.840,774 existing from a period prior to 31 December 2009 had been included in the value of property, plant and equipment even by 31 December 2015.

### **2.2.3 Unexplained Differences**

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Differences totalling Rs.1,335,596 was observed between the value of the balances of the two accounts, Stocks and Accrued Expenses mentioned in the financial statements and the schedules.

### **2.2.4 Lack of Evidence for Audit**

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The evidence indicated against the following items was not made available to audit and as such those could not be satisfactorily vouched or accepted in audit.

Item -----	Value Rs. -----	Evidence not made available to Audit -----
Trade and other balances payable	127,570,740	Registers of Confirmation and Letters of Confirmation of Balances
Receivable and pre-paid balances	42,192,409	Registers of Confirmation and Letters of Confirmation of Balances

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) A cash balance of Rs.14,036,376 recoverable from a private investor is shown in the statement of financial position and it had not been recovered even by 31 December 2015.
- (b) The Industries had failed to recover even by the end of the year under review, the rent of Rs.4,249,000 recoverable for hiring 700 sugar cane binding chains to the Lanka Sugar Company (Private) Limited for 607 days from 09 September 2012 up to 30 April 2014.
- (c) A sum of Rs.31,513,160 payable by the Institution to the Ceylon Electricity Board for electricity used by the Industries for the period from the year 1988 up to May 2010.had not been settled even by 31 December 2015.

## 2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

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The following non-compliances with laws, rules, regulations, etc. were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(a) Financial Regulation 156 (5) (6)	No erasures must appear in accounts or any documents connected therewith and all accounting documents, books, records, registers etc., should be held in proper custody and in good order and condition until they are duly disposed of. Nevertheless, action had not been taken to maintain the cash book and other Ledger Accounts of the Industries in such manner.
(b) Financial Regulation 756	A physical verification for the stock valued at Rs.48,323,446 and fixed assets as at the last date of the year under review had not been carried out at the end of the year.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of the Industries during the year under review had been a surplus of Rs.151,583 as against the deficit of Rs.13,020,428 for the preceding year thus indicating an improvement of Rs.13,172,011 in the financial result of the year under review as compared with the preceding year. Even though the administrative expenditure had increased by Rs.4,647,838, the receipt of Treasury grants of Rs.17,117,091 had been the main reason for the above improvement in the financial result.

### 3.2 Analytical Financial Review

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The following observations are made.

- (a) Out of the total income of the Industries amounting to Rs.18 million, a sum of Rs.17.1 million representing 91 per cent represented Treasury grants.

- (b) Out of the total operating expenditure of the Industries amounting to Rs.18.6 million, a sum of Rs.15 million representing 81 per cent consisted of employees' salaries, wages and allowances.

#### **4. Operating Review**

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##### **4.1 Management Activities**

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Even though the assets and liabilities of the Kantale Sugar Industries Limited which exists as an inoperative enterprise should be settled in terms of Cabinet Paper No. 13/1224/560/005 of 21 August 2013 and Memorandums and Committee Reports relating to that, it had not been so done.

##### **4.2 Idle and Underutilized Assets**

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The following observations are made.

- (a) The entire extent of the land belonging to the Industries stands at 8.596 hectares and out of that, 56 per cent, that is approximately 4,800 hectares had been developed for cultivation of sugarcane and 31 per cent, that is 2,650 hectares had remained idle without being made use of.
- (b) Two hundred and thirteen light and heavy vehicles and machinery of scrap value amounting to Rs.25,493,500 belonging to the sugar factory and distillery in unusable condition were decaying in the Industries premises for a period of nearly 21 years.

#### **5. Systems and Controls**

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

Areas of Systems and Controls -----	Observations -----
(a) Accounting	Preparation of financial statements without following Accepted Accounting Standards.
(b) Stocks Control	Failure in taking action to eliminate or write off out of date stocks by carrying out a stock verification.

- (b) Debtors and Creditors Control
  - (i) Non-preparation of age analyses of debtors and creditors
  - (ii) Failure to take action to settle accrued expenses over a long period.
  
- (c) Staff Administration
  - Failure in taking action to use the human resource in an optimum and effective manner.