Lanka Sugar Company (Private) Limited - 2015

The audit of financial statements of the Lanka Sugar Company (Private) Limited (The Company) comprising the statement of financial position as at 31 December 2015 and the statement of profit or loss and other comprehensive income, 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. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report.

1.2 Establishment and Ownership of the Company

The Sri Lanka Sugar Company is a limited liability Company incorporated under the Companies Act, No. 07 of 2007 and re-registered under the Companies Act, No. 07 of 2007. This is a fully owned Government Company and the Secretary to the Treasury is being the single shareholder of the Company.

1.3 Board's Responsibility for the Financial Statements

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The Board of Directors ("Board") 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 Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 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. 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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

1.5 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 Lanka Sugar Company (Private) Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS/SLFRS)

The following observations are made.

a) **LKAS 10 – Events after the Reporting Period**

Even though the date when the financial statements were authorized for issue should be disclosed, the Company had not complied with this.

b) **LKAS 24 – Related Party Disclosures**

The information with regard to the related party transactions had not been disclosed in the financial statements for the year under review.

c) **LKAS 37 – Provisions , Contingent Liabilities and Contingent Assets**

As per the Standard, the provisions had to be made for contingent liabilities by considering the present situations of court cases as at the date of statement of financial position and had to be disclosed in the financial statements. However the Company had not complied with this. Further, it was failed to present the confirmation letters of the lawyers with regarding the available court cases.

d) **LKAS 39 – Financial Instruments Recognition and Measurement**

According to paragraphs 09 (ii), 46 (a) and (b) of the Standard, the balances of staff loans and other debtors had to be disclosed in the financial statements by adjusting under effective interest method. Further, the fixed assets kept for its maturity should be categorized under "Held to Maturity" and recognized in the financial statements by measuring at amortize cost using effective interest method. However the Company had not complied with these.

Meanwhile, the deposits amounting to Rs. 910,838,300 shown in the financial statements under current assets had not been categorized and measured as per paragraphs 9 and 45 of the Standard.

e) **LKAS 41 - Agriculture**

Although the biological transformation should be recognized and shown as biological assets under non-current assets as per provisions in the Standard, the biological asset valued at Rs. 624,198,372 had been shown under current assets by the Company. It was further observed that the details with regarding the biological assets had not been disclosed in the financial statements for the year under review. Even though the biological assets should be calculated and recognized in the accounts at the fair value, the actual expenditure incurred in sugarcane cultivation had been calculated and shown as biological assets in the accounts.

f) **SLFRS 07 – Financial Instruments Disclosures**

Though the comparison should be presented separately for impairment provisions, doubtful debts had been deducted directly from the assets and shown under loans due from farmers.

g) **SLFRS 08 – Operating Segments**

Disclosures with regard to the reportable segments had not been shown in the financial statements in terms of paragraph 22 and 28 of the Standard,.

2.2.2 Accounting Deficiencies

The following observations are made.

a) An asset with a minus value of Rs. 14,170 had been included in the asset register of the Sevanagala Sugar Industries belonging to the Company.

b) Even though the policy of the Company in depreciating the land developments shown under fixed assets of Pelwatta Sugar Industries is two per cent per annum, the land developments worth Rs.8,384,151 of Mahawewa project had been depreciated by four per cent per annum and accounted accordingly.

c) The balance of Rs. 760,763,929 shown under the fixed assets of Pelwatta Sugar Industries belonging to the Company had been adjusted the depreciations for the whole year instead of considering the date of purchases.

d) Interest payable amounting to Rs. 19,038,439 with relating to 08 lease agreements of Pelwatta Sugar Industries had not been brought to the financial statements. Therefore, the profit for the year under review had been overstated by that amount.

e) No age analysis for inventory items had been prepared in order to identify the provisions for obsolete stocks while five inventory items of Sevanagala Sugar Industries belonging to the Company had been a minus value of Rs. 36,435,394.

f) Cost of sales in the financial statements of Pelwatta Sugar Industries had been computed by deducting Rs.1,847,711 and adding Rs.4,813,390 as 'valuation adjustments'. Therefore, the accuracy of the total cost of sales of Pelwatta Sugar Industries amounting to Rs.3,710,632,390 which had been calculated without following proper cost accounting techniques could not be ascertained in audit.

g) Assets belonged to previous management could not be identified from the assets shown under fixed assets of Pelwatta and Sevanagala Sugar Industries and these assets were not shown in fair value as they were not revalued.

h) Income tax and deferred tax computations had not been done in accordance with the provisions in Inland Revenue Act, No. 10 of 2006.

2.2.3 Unidentified differences

The following observations are made.

a) Even though the net balance of plant and machinery shown in the financial statements of Sevanagala Sugar Industries belonging to the Company was Rs. 440,242,580, as per the schedule it was Rs.430,194,601 hence, there was a difference of Rs. 10,047,979.

b) Field plant and equipment, and vehicles costing Rs. 442,730 and Rs.442, 924 respectively included in the financial statements of Pelwatta Sugar Industries were different from the cost balances shown in the fixed assets register.

c) There were differences between the balances taken by the Head Office for the preparation of financial statements of the Company with regarding Sevanagala and Pelwatta Sugar Industries and the accounts presented for audit by the Sevanagala and Pelwatta Sugar Industries. Accordingly, there was a difference of Rs. 67,560,469 in four account balances of Palwatta Sugar Industries and a difference of Rs. 26,435,833 in five account balances of Sevanagala Sugar Industries.

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d) As per the financial statements of Sevanagala and Pelwatta Sugar Industries, there was a difference of Rs.1,084,930 in the balance payable to Sevanagala Sugar Industries while in the case of balance payable to the Head Office, there was a difference of Rs.2,000,390. There was also a difference of Rs.45,596,272 in the balance receivable from Head Office as shown in the above mentioned financial statements.

2.2.4 Accounts Receivable and Payable

2.2.4.1 Accounts Receivable

The following observations are made.

a) Actions had not been taken to recover long outstanding balances of Rs. 592,930,256 remained in the accounts since 1987 which was to be recovered from farmers by the Pelwatta Sugar Industries. Further, actions had not been taken to recover the outstanding balances of Rs. 1,578,177 shown under trade and other receivable since 2012 in the financial statements of Pelwatta Sugar Industries which was receivable from staff club along with the balances of Rs.2,564,708 which are shown under advances and prepayments since 2012 as revealed by the financial statements of Pelwatta Sugar Industries.

b) Advances and prepayments balances shown in the financial statements of Pelwatta Sugar Industries belonging to the Company were included a balance of Rs.1,348,314 made to suppliers in 2013/2014 and the Company had not taken actions to recover those balances.

c) Provisions had not been made for bad and doubtful debts through an age analysis and actions had not been taken to set off the balance of Rs. 319,114,107 to be recovered from farmers shown in the financial statements of Sevanagala Sugar Industries.

d) Credit balance in debtor accounts amounting to Rs.50,225 had also included in the financial statements in relation to Pelwatta Sugar Industries without being cleared.

e) Advances and prepayments shown in the financial statements of Pelwatta Sugar Industries were included goods in transit of Rs. 26,304,842 from 2013 to 2015 and this balance had not been settled even up to 31 December 2015.

f) The loan facilities given to farmers by the previous management before the time of acquisition by the Government had been accounted by the Pelwatta Sugar Industries. However, it had not been identified and accounted by the Sevanagala Sugar Industries.

2.2.4.2 Accounts Payable

The following observations are made.

a) A sum of Rs.67,403,708 payable to creditors had been included in creditors control account of Pelwatta Sugar Industries since 2011 and the Company had not taken actions to settle those balances.

b) A balance of Rs.3,972,068 had been included in trade and other payables of Pelwatta Sugar Industries as anticipated payment account for more than one year without being taken action to settle.

c) A surcharge on Employee Provident Fund amounting to Rs.13,658,977 had been included since 2011 in trade and other payables of Pelwatta Sugar Industries and incentives payable for staff and farmers amounting to Rs.56,999 and Rs. 2,225,407 respectively had also been included in that balance.

d) A payable balance of Rs. 8,086,000 to Lanka Sathosa by Pelwatta Sugar Industries had been shown in the financial statements since 2013 without being taken actions to settle that balance.

e) Unclaimed wages aggregating Rs.4, 074,921 remained in the accounts for more than one year of the Pelwatta Sugar Industries even though the precautions should be taken on short time period as these balances would be caused to misconducts.

f) The Company had not taken actions to settle the balance of Rs. 152,132 shown under sundry creditors in the financial statements of Sevanagala Sugar Industries for more than one year.

g) Nations Building Tax (NBT) balance of Rs.160,442,120 relating to the Pelwatta Sugar Industries had been included in sundry creditors without being taken action to remit this balance to the Commissioner General of Inland Revenue.

h) Old credit balance of Rs.59,822,499 received from farmers had been erroneously shown in the financial statements of Sevanagala Sugar Industries as sundry creditors.

2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) The evidence indicated against each item of accounts shown below had not been presented for audit.

(b)

Items of Account	Amount	Evidence not made available
	Rs.	
Hotel project balance - Pelwatta Sugar Industries	74,821,594	Supporting documents to verify the amounts.
Disposed field plant and equipment - Pelwatta Sugar Industries	210,000	
Current year adjustments	4,170,957	
Lease payable to the bank	11,812,500	Bank confirmations

(c) The list of assets transferred to the Company under the provisions in the Act of Revival of Underperforming Enterprises or Underutilized Assets No. 43 of 2011 had not been made available for audit.

2.2.6 Non- Compliance with Laws, Rules and Regulations

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Public Enterprises Circular No. PED12 of 02 June 2003	
I. Paragraph 9.2 (d)	Though the Organization Structure and approved Cadre should be registered in the Department of Public Enterprises of the General Treasury, the Head Office of the Company and Pelwatta and Sevanagala Sugar Industries had not complied with this.
II. Paragraph 5.2.5	Although a copy of the final updated budget approved by the Board of Directors of the Company should be submitted to Auditor General before elapsed of 15 days of the year begins, such budgeted estimates for the year 2016 had not been submitted to the Auditor General.
III. Paragraph 6.5.1	The financial statements should be presented to the Auditor General within 60 days after elapse of accounting year. Nevertheless, the Company had presented its financial statements for the year under review after delaying 5 months and 20 days.
(b) Public Administration Circulars No. 14/2008 and No. 22/99 of 26 June 2008 and 08 October 1999 respectively and Department of Public Enterprises Circular No. PED /1/2015 of 25 May 2015	I. A monthly transport allowance of Rs. 30,000 and a monthly fuel allowance entitle to relevant post could be paid to the officers who are entitle to have office vehicle for private use. However, a sum of Rs.240,000 for 04 officers attached to the Head Office in the year 2015 and a sum of Rs. 838,000 for 8 officers in Pelwatta Sugar Industries had been over paid in contrary to the provisions in the circulars and without obtaining the approval of the Board of Directors as well.
	II. Even though the officers getting transport and fuel allowances are not eligible to have a driver or driver allowance, the Deputy General Manager (Finance) had employed a driver in permanent cadre and that driver had been paid a salary of Rs. 488,542 by the Company in the year 2015. Further, that driver was provided a residence at Yalabowa housing scheme which was assigned to

	Management Level Officer.
(c) Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008	Environmental protection license had not been acquired by the Sevanagala Sugar Industry in terms of National Environment Act
(d) Government Procurement Guidelines 2006 Guidelines 2.14.1 and 3.2.1	Approval of the Ministry Procurement Committee had not been obtained by the Pelwatta Sugar Industries to procure a crane at a cost of Rs. 128,910,000 and market price reference method had been followed instead of calling national competitive biddings.
Guidelines 3.2.1	An approval of the Departmental Procurement Committee had not been acquired by the Sevanagala Sugar Industries to procure a crane at a cost of Rs.17,400,000
Guidelines 3.4.1. (a) and 7.12.2 (a)	Though the market price reference method should be followed when purchasing low value and urgent needs goods, this method had been used by Sevanagala Sugar Industries to procure two Shaft Mount Gear Boxes for worth Rs. 11,872,000 and also wider publicity had not been made for calling bids.

2.2.7 Unauthorized Transactions

The following observations are made.

a) The top management personnel of Sevanagala Sugar Industries, the Head Office of the Company and Pelwatta Sugar Industries have been obtained various allowances of Rs.1,920,000, Rs.1,560,000 and Rs.22,537,806 respectively based on the approval of the Chief Executive Officer of the Company without obtaining the approval from the Department of Management Services.

b) Sales of ethanol for lower than the prices decided on 24 August 2015 had been caused a total loss of Rs. 46,218,000 comprising the loss of Rs.31,218,000 and Rs.15,000,000 in Pelwatta and Sevanagala Sugar Industries respectively. Further, the fixed selling price for ethanol had not been decided and many prices had been used to selling the ethanol to each institution during that period.

c) A sum of Rs.4,002,360 and Rs. 6,665,725 had been obtained from the Sevanagala Sugar Industries by the Head Office in order to meet the expenditure of Badulla and Kanthale projects respectively without having proper authority to spend.

d) A sum of Rs.26,462,500 had been deposited in a fixed deposit account of a private bank by taking cash from Sevanagala Sugar Industries in 2014. An interest of Rs.870,000 had been lost as it was withdrawn before the date of maturity on 13 March 2016.

e) A vehicle at a cost of Rs. 10,048,000 had been procured for Chief Executive Officer out of the money transferred amounting to Rs.10,600,000 to the Head Office from Sevanagala Sugar Industries. However, approvals had not been given to transfer the money or to procure this vehicle.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net loss of Rs.1,052,439,824 as compared with the corresponding pre-tax net loss of Rs. 211,012,935 in the preceding year, thus indicating a further deterioration of Rs. 841,426,889 in the financial results for the year under review. Decrease of operating income by Rs.657,667,601 and increase in cost of sales by Rs.160,665,253 as compared with the preceding year were the main reasons attributed for this deterioration in the financial results.

3.2 The Value Addition of the Company

Even though the net loss for the year under review was Rs. 1,067.3 million, the contribution of the Company to the Country during the year under review was Rs.1,305.6 million. The contribution of the Company to the Country during the year under review and in the previous three years period is as follows.

Description	2015	2014	2013	2012 (Last 03 Months)
	Rs.	Rs.	Rs.	Rs.
Profit/ (Loss) for the year	(1,067,300,530)	(150,836,960)	816,828,301	(174,323,817)
Add: - Staff Remuneration	2,092,819,358	1,658,235,775	1,540,551,175	1,414,038,931
Taxes paid to the Government	(14,860,706)	60,175,975	-	-
Depreciation	294,951,968	268,727,657	199,837,040	46,752,626
Value Addition	**1,305,610,090**	**1,836,302,447**	**2,557,216,516**	**1,286,467,740**

The following observation is made in this connection.

Total staff remunerations of the Company had been increased by Rs.434,583,583 as compared with the preceding year.

3.3 Significant Accounting Ratio

According to the information made available, some of the important ratio of the Company for the year under review and for the preceding year is given below.

	Year Under Review	Preceding Year
Current Asset Ratio	1 : 1.8	1 : 2.25
Quick Assets Ratio	1 : 1.7	1 : 1.55

The following observation is made in this connection.
The Company had invested a sum of Rs. 910.84 million and Rs. 1,733.87 million in the fixed deposits as at the end of the year 2015 and 2014 respectively and theses investments had been included in the current assets of the Company. As such the liquidity position of the company was in a satisfactorily level.

4. Operating Review

4.1 Management weaknesses

The following observations are made.

a) Two shaft mounted gear boxes valued at Rs. 11,872,000 procured as urgent needs in order to crushing sugarcanes had been received to main stores on 24 May 2014. However, these had been installed in the industry only on December 2015. Further, crushing of sugarcanes had been commenced in 2016 and the machine was out of order at the very first day of crushing sugarcanes.

b) Procurement of Cane Unloading Systems

I. A Cane Unloading System had been procured at a cost of Rs. 128,910,000 for the use of Pelwatta Sugar Industries and it had not been installed properly. As a result, the old crane available in the industry had been installed by spending a sum of Rs. 61,333,644.

II. Two Cane Unloading Systems procured during the year under review at a cost of Rs. 17,400,000 by the Sevanagala Sugar Industries were not in a working condition by 25 June 2015. However, the final payment amounting to Rs.1,809,600 had been paid by the Company on 27 November 2015 without taking proper action.

c) An Alcohol Flow Meter (Neptune) with air release waves used to issue ethanol to buyers of Sevanagala Sugar Industries had been procured at a cost of Rs. 1,951,019 in the year 2013. However, this meter had not given correct measurement data.

d) One hundred and twenty one vehicles, plant and equipment of Pelwatta Sugar Industry had been directed to its own agricultural workshop for repair. However, those vehicles were kept idle due to delay in repairing. Further, steps had not been taken by the Company to repair them.

e) Thirteen Tractors, three robin pumps, a lorry and a cab given to repair during December 2012 to the end of 2014 had been kept without performing the repairs.

f) Even though the contract had been awarded to complete the construction of waste water treatment plant for Rs. 27,067,812 by May 2014, it had not been completed even as at 31 August 2016. Therefore, the environment license required for the Industry could not be obtained.

g) Information relating to 21 accidents had been received to audit and 15 out of them were not claimed from insurance company by presenting bills for estimated losses. Further, vehicles sent to agricultural workshop for the purpose of repairing are being used without repairing as delays in the workshop.

h) The Company had not taken actions to repair 04 houses in Managers' Housing Scheme and 131 houses under the supervision of City Development Unit though these had been in repairable condition. Out of them 12 houses had not been repaired for more than 10 years.

i) The Company had not taken actions to recover rent from 07 officers attached to Pelwatta Sugar Industries and Bank of Ceylon Pelwatta Branch.

j) One Hundred and thirty two trailers, bowsers, cranes, loaders, excavators belonging to Pelwatta Sugar Industries had not been registered by the Company.

k) The land vested to Sevanagala Sugar Industries for the cultivation of sugarcane was 4198.41 hectares. However, out of that land 281.51 hectares had been cultivated other crops and 27.55 hectares had been used for unauthorized constructions.

l) Although a land with extent of 469.87 hectares had been given to the Company by Sri Lanka Mahaweli Authority on 99 years lease basis, the lease agreement was not made available in the Company. Therefore, the Company had not able to take legal actions against the unauthorized encroachments.

m) Fifty seven quarters of Sevanagala Sugar Industries had been used by the unauthorized parties and 26 houses were not suitable for living due to repairs not done. Actions had not been taken by the management by considering the steps to be taken in this regard.

n) A bowser of the Company had been damaged due to an accident. However, the Company had to bear the damage of Rs. 906,972 as the license and insurance was not acquired.

o) Though a sum of Rs. 2,218,134 had been given to Hingurana Sugar Industries in 04 instances for salaries by Sevanagala Sugar Industries, a sum of Rs. 1,115,789 had only been shown as salaries in the accounts of Hingurana Sugar Industries.

p) In order to re-establish the Kanthale Sugar Industries in the year 2014, a sum of Rs.7,446,704 had been spent for a project and it was included a sum of Rs.1,331,000 spent for cultivating sugarcanes and a sum of Rs. 1,463,153 for land development for new office at Kanthale. However, this project had been completed without getting any benefit and no follow up actions had been taken with relating sugarcanes.

q) Though the Company had established an Internal Audit Unit, a sum of Rs. 150,000 had been spent for a committee consisting of three outside persons to conduct a special audit.

r) Though Pelwatta Sugar Industries had maintained agricultural workshop to repairs of vehicles and machines, 11 vehicles and machines had been sent to outsiders during the period from November 2014 to March 2016.

s) The lands with extent of 791 hectares belonging to 9 Divisional Secretariats in Badulla district had been selected to cultivate sugarcanes and out of them, sugarcanes had been cultivated only in 60.6 hectares of lands in 6 Divisional Secretariats. The sugarcane cultivation in 03 Divisional Secretariats had been failed and the project had been abandoned on 28 August 2015 without being revealed the things happen to cultivated sugar canes. Therefore, the cost incurred for this was fruitless.

4.2 Operating Weaknesses

The following observations are made.

a) The contribution from ethanol is greater than sugar. However, the unused factory capacity in 2013, 2014 and 2015 had been increased by 1 per cent, 20 per cent and 45 per cent respectively. Therefore, the profitability of the Company had been decreased due to the decline of manufacturing and selling of ethanol.

b) A loss of Rs. 18,185,400 had been occurred in Pelwatta Sugar Industries in view of mixing 35,000 liters of unusable ethanol to usable ethanol stored in VAT 2 tank as such 60,618 liters of ethanol had become unusable. This was 60,731 liters as at 28 August 2015 and had been reduced to 60,618 liters as at 22 October 2015 resulting shortage of 113 liters.

c) A difference was observed between the Molasses pumped to distillery from the factory and actual receipts of Molasses to distillery of Pelwatta Sugar Industries. Therefore, a sum of Rs.22, 999,375 had been loss during the month of April 2015 with regarding 751 metric tons of molasses.

d) The Company had not taken actions to use a standard system to measure the ethanol at the time of sending them to storing VAT tanks which produced daily in Pelwatta Sugar Industries.

e) Even though the unusable sugar due to candied or any other reasons had been reprocessed in Pelwatta Sugar Industries, the proper system had not been implemented to document the amount input to the reprocess.

i. VAT 3 tank in Sevanagala Sugar Industries with a capacity of 143,892 liters of manufactured ethanol had been kept idle due to storing 35,642 liters of weak ethanol.

ii. An excess of 5715.28 liters of ethanol had been revealed in physical verification of closing stocks in Pelwatta Sugar Industries. The status, actual volume, shortage at that time, standard deviation etc. had not been based with regarding the ethanol stocks. Therefore, the systems and controls in placed could not be satisfied in audit.

f) The manuals including controls, policies and processes in order to directing sales, marketing, administration and operations in the factory had not been made available in the Company.

g) The management had not taken actions to replace or repair the unsound 30 years old plant and equipment and the hours closed the factory due to stalling of machines had been increased in 2015 by comparing with 2014 and it was 12 per cent of total factory hours.

h) A proper cost accounting system had not implemented by the Pelwatta Sugar Industries to calculate the unit production cost.

4.3 Transactions of Contentious Nature

The following observations are made.

a) Even though a sum of Rs. 1,600,000 had been paid as management fee to 6 employees of Pelwatta Sugar Industries attached to the Head Office in Colombo, the salary paid to same employees in the year 2015 by the Pelwatta Sugar Industries was Rs.2,131,227.

b) The Pricing Committee had decided that the minimum and maximum selling price of ethanol produced by Pelwatta and Sevanagala Sugar Factories were Rs.290 and Rs.350 respectively. The Company had sold its ethanol at less or lower prices than the minimum price. Therefore, the sales income of ethanol had been decreased by Rs.760, 169,391 or 32 per cent in 2015 as compared with 2014.

Further, 90 per cent of ethanol had been sold at the minimum sales price of Rs. 290 per liter and the sales policy of the Company is to grant higher benefit to large scale alcohol manufacturers and thereby the Company had incurred a huge loss.

c) Even though the Pelwatta and Sevanagala had been vested to the Company as per the Cabinet decision dated 08 August 2014, Kanthale and Hingurana Sugar Industries were in idle as these were not vested to the Company.

4.4 Uneconomic Transactions

a) An accounting package had been introduced by Pelwatta Sugar Industries for the preparation of accounts by paying an annual fee of Rs. 1,371,265. However, most of modules in this software had not been utilized by the Company.

b) An interest of Rs. 60,590,053 had been paid during the year under review for the bank overdraft of Rs.576,782,652 shown in the financial statements of the Company.

c) A sum of Rs. 1,000,000 had been paid as sponsorships for the distribution of deeds by the State Plantation Ministry among the workers in Badulla district which had not been directly related with the objectives of the Company.

d) A sum of Rs.. 6,628,619 had been spent for Small scale sugarcane farmers sugar manufacturing project – Badulla during the year under review. However, the supervision of relevant officer had not been made with regard to the correctness of those expenses. Further, the stationary procured for Rs. 782,843 could not be used for the intendant purpose as the details of a politician was printed in it.

e) An officer recruited under contract basis and subsequently granted permanency by the sugarcane research institute, had been recruited at the same time as coordinating officer to develop and distribute sugarcane cultivation in Badulla district and had been paid a sum of Rs. 1,100,000 for 11 months in 2014 by a sum of Rs. 100,000 per month.

4.5 Staff Administration

The following observations are made.

a) The actual cadre of the Head Office is 17 and 8 employees of Pelwatta Sugar Industries had included in this staff cadre. The approved cadre of the head office had not been clearly identified. Further, officers of managerial level had been recruited on the one year contract basis and those appointments had been renewed annually.

b) The approved cadre of Sevanagala Sugar Industries had not been recognized. Further, personal files of previous officers were not available in the factory.

c) Scheme of recruitment and cadre for Pelwatta Sugar Industries had not been approved by the Department of Management Services.

5. Systems and Controls

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

	Area of Control	Observations
(a)	Cost and Financial Accounting	Non-availability of proper cost and financial accounting system
(b)	Inventory Controls	Provisions or written off had not been made by identifying obsolete stocks.
(c)	Debtor and Creditor Balances	Provisions had not been made for bad debts and doubtful debts through a debtor/creditor age analysis and also actions had not been taken to setoff or recover long outstanding balances.
(d)	Accrued Expenses	Actions had not been taken to settle the long outstanding balances.
(e)	Human Resources Management	Approved Recruitment Procedure was not made available.
(f)	Purchases	Instructions in the procurement guidelines had not been followed.