

## **Sugarcane Research Institute - 2015**

---

The audit of financial statements of the Sugarcane Research Institute for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Sugarcane 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 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 misstatement of the financial statements, whether due to fraud or error. In making those risk 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 Sugarcane Research Institute as at 31 December 2015 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**

---

Even though in the absence of a Sri Lanka Public Sector Accounting Standard that specifically applies to a transaction or event, the management should develop and apply a suitable accounting policy in terms of Sri Lanka Public Sector Accounting Standard 03, the accounting policy adopted by the Institute in respect of accounting for biological assets, allocation of gratuity and classification of fixed assets had not been disclosed.

#### **2.2.2 Accounting Deficiencies**

---

The following observations are made.

- (a) The fixed assets of the Institute had been revalued on 31 March of the year under review and depreciation of assets relating to the period of 03 months from 01 January to 31 March 2015 had not been made.
- (b) Cess levied on local sugar manufacture had been stated on cash basis and as such, cess income of the year 2015 had been understated by Rs.960,700.

#### **2.2.3 Unexplained Differences**

---

A difference of Rs.3,475,790 was observed between the cess income receivable relating to sugar manufactured in the year 2015 in the two institutions of Pelwatte and Sevanagala according to the financial statements and cess income computed according to the production data obtained by audit.

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

---

The following observations are made.

- (a) Loans amounting to Rs.1,164,231 and Rs.172,834 from the Sevanagala Sugar Factory and Lanka Sugar Company (Pvt.) Ltd. respectively had not been recovered for over a period of 04 years.
- (b) A loan amounting to Rs.1,000,000 and interest thereon amounting to Rs.385,333 remained recoverable from the Kantale Sugar Company as at 31 December of the year under review.

## 2.4 Non –compliance with Laws, Rules Regulations and Management Decisions

---

The following instances of non-compliances with laws, rules, regulations and management decisions were observed.

### Reference to Laws, Rules, Regulations, etc.

---

### Non-compliance

---

(a) Procurement Guidelines 2006

(i) Guideline 3.4.2 (A)

When calling for quotations for purchase of electric equipment valued at Rs.729,370, specifications including information such as standard, certification of quality and warranty period of goods had not been indicated.

(ii) Guideline 3.4

On a request made by the institution which supplied the security service in the preceding year, that same institution had been selected with effect from May 2015 without inviting bids. A sum of Rs.8,158,718 had been paid for the year under review.

(b) Public Administration Circular  
No.30/2008 of 31 December 2008

Even though the basic salary of the officer for 10 months or Rs.250,000 , whichever is less should be paid as distress loan, contrary to that, distress loans which exceeded such limit by a total of Rs. 3,081,640 had been paid to 36 employees in the year under review.

(c) Circular No. PED/12 of 02 June 2003

(i) Section 9.12

Even though the approval of the General Treasury should be obtained to implement any welfare scheme whatsoever, contrary to that, an expenditure amounting to Rs.11,500,000 had been incurred in the year under review for the reimbursement of medical bills of the employees.

(ii) Section 9.14.2

The approval of the Department of Public Enterprises had not been obtained for the Manual Procedure on rules relating to the management of the Institute in terms of the circular.

## 3. Financial Review

---

### 3.1 Financial Results

---

According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs.56,438,274 as compared with the corresponding surplus of Rs.6,780,836 for the preceding year thus indicating an improvement of Rs.49,657,438 in the financial result of the year under review as compared with the preceding

year. Even though the cess income from importation of sugar in the year 2015 had decreased by Rs.86,242,650 and the cost of staff and the other expenditure had increased by Rs.42,757,243 and Rs.25,246,476 respectively, the increase in the Treasury Recurrent Grants by Rs.197,700,000 had been the main reason for the above improvement.

An analysis of the financial results of the year under review and four preceding years revealed a financial surplus in the year 2011. Nevertheless, there had been a deficit in the years 2012 and 2013. However, there had been a surplus in the year 2014 and the year under review and the improvement of the surplus had been 732 per cent in the year under review as compared with the year 2014. Taking into consideration the employees' remuneration, depreciation for non-current assets and taxes paid to the Government, the contribution of the Institute which was Rs. 122,273,086 in the year 2011 had gradually decreased in the years 2012 and 2013. Nevertheless, it had improved again since the year 2014 and amounted to a sum of Rs.240,688,116 by the year under review.

### **3.2 Legal Actions instituted against or by the Institute**

-----

Two cases had been filed, claiming compensation in the Courts against the Institute by two employees of the Institute who had left the service.

## **4. Operating Review**

-----

### **4.1 Performance**

-----

Objectives of the Institute are given below.

- Increase availability of sugarcane varieties with improved commercial attributes in local plantations and conduct researches thereon.
- Improve sugarcane crop management practices.
- Ensure efficient utilisation of land, soil and water resources in sugarcane production with minimum environment degradation.
- Diversify sugarcane lands and sugarcane- based products.
- Mechanise sugarcane farming.
- Improve processing efficiencies of sugarcane and of its co-products
- Increase stakeholder knowledge of sugarcane technologies and provide necessary institutional coordination and support for adoption/commercialisation of such knowledge.

### **4.2 Management Activities**

-----

The following observations are made.

- (a) The Sugarcane Research Institute had spent a sum of Rs.1,935,686 in the year under review for the maintenance of an office in a private building in Colombo without a permanent and continuous duty. Even though 05 employees had been recruited on daily basis, duties had not been assigned properly to those officers.

- (b) Even though the foundation stone had been laid on 11 November 2012 for the construction of a Sugarcane Hybridization Station for the Institute, constructions had not been commenced even by 31 December 2015.
- (c) Even though a cess should be charged from sugar manufacturing institutions on the quantity of sugar manufactured in terms of Section 18 of the Sugarcane Research Act, No.75 of 1981, the Management had not taken proper steps to recover that.
- (d) Out of 59 researches implemented by the Sugarcane Research Institute, 38 researches had not reached the expected physical progress in the year under review and as such, it had been a hindrance in fulfilling the main objectives of the Institute.

#### **4.3 Operating Activities**

-----

According to the Project on Sugarcane Cultivation and Manufacturing and Improving of Juggery in Badulla District, the main objective was to increase the manufacture of juggery up to 6,000 tons during 05 years. Even though sugarcane should be cultivated in 1,203 acres by the end of the year under review according to the Project Plan, only 110 acres had been cultivated and the quantity of manufactured juggery stood at 1.13 tons. Even though a total cost of Rs.16,224,417 had been incurred for the project in the year under review and the preceding year, the Institute had failed to achieve expected benefits from the project.

#### **4.4 Transactions of Contentious Nature**

-----

A generator valued at Rs.4,216,335 had been purchased in December of the year under review from a private company. Even though it had been mentioned in documents that the purchased generator had been manufactured in the United Kingdom, it was revealed that the above machine had been manufactured by assembling parts produced in various countries.

#### **4.5 Idle and Underutilized Assets**

-----

Two sugarcane grinding machines and the diesel water pump purchased at a cost of Rs.2,433,056 for the Sugarcane Cultivation Project in Kilinochchi had not been used even by 10 February 2016.

#### **4.6 Resources of the Institute given to External Parties**

-----

An officer of the Institute had been released to the staff of a Member of Parliament for a period of 06 months and this officer had been paid a sum of Rs.322,012 as salaries, contributions to the Employees' Provident Fund and Employees' Trust Fund. Even though the period of release had been only for 6 months, salaries had been paid for a service period of 8 months even while being employed in the staff of the Member of Parliament.

#### **4.7 Identified Losses**

-----

The institution which offered the lowest quotation for the supply of security services for the period from April 2014 to May 2015 had not been selected and as such, a loss of Rs.1,610,393 had been sustained by the Sugarcane Research Institute.

#### 4.8 Staff Administration

-----  
The following observations are made.

- (a) The approved cadre and the actual cadre of the Sugarcane Research Institute had been 193 and 172 respectively and as such, 21 vacancies existed in 12 posts. It was observed in audit that successful conducting of research activities, which are the main objectives of the Sugarcane Research Institute, had failed due to existence of vacancies in posts such as Chief Research Officer, Senior Research Officer, Technical Officer and Laboratory/Field Assistant.
- (b) Action had not been taken to approve a post in the approved cadre of the Institute for the post of Librarian and a Technical Officer had been deployed in performing the duties of the Library.
- (c) A Project Coordinator and 06 Field Officers had been recruited on contract basis for the Project on Sugarcane Cultivation and Manufacturing and Improving of Juggery, implemented by the Sugarcane Institute in Badulla District. However, evidence to establish the qualifications of the officers recruited had not been furnished to audit.

#### 4.9 Utilization of Motor Vehicles

-----  
A double Cab motor vehicle had been parked in the garage for over a period of two years by stating that it is for an engine repair and a jeep had been retained without being repaired in the Engineering Division from January 2015 to 11 February 2016, the date of audit.

#### 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 Institute from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
-----	-----
(a) Accounting	Even though adjustments had been made in accounts through journal entries, action had not been taken to prepare journal vouchers in that connection.
(b) Control of Income	Action had not been taken to obtain accurate production details and compute cess income.
(c) Stores Control	Goods purchased had been retained in the stores without distributing as those did not conform to relevant specifications.

(d) Purchases

Action had not been taken to make purchases in terms of the Procurement Guidelines.

(e) Provision for Doubtful Debts

Failure in making provisions for doubtful debts in respect of receivable balances remaining over a long period without being recovered.