

## **Kantale Sugar Industries Limited – 2016**

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The audit of financial statements of the Kantale Sugar Industries Limited for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 observations in respect of performance of the Industries of the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, 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. 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 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 2016 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Report on other Legal and Regulatory Requirements**

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The following matters prescribed by Section 163(2) of the Companies Act, No.07 of 2007 are given below.

- (a) Basis for opinion, scope and limitations are as follows.
- (b) Adequate information and explanations required for audit had not been received because of the significance of matters described for the adverse opinion and the Industries had not maintained reports on accounts properly.
- (c) The financial statements of the Industries are in compliance with requirements stipulated in Section 151 of the Companies Act, No.07 of 2007.
- (d) Action had not been taken in accordance with provisions prescribed in Section 220 of the Companies Act.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

#### **(a) Sri Lanka Accounting Standard 02**

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A 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 action had not been taken to write off this stock from books during the current year.

#### **(b) Sri Lanka Accounting Standard 16**

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- (i) Fixed assets valued at Rs.47,843,636 shown in the financial statements had been depreciated based on the value, existed at the beginning of the year under review without considering the dates on which those assets had been purchased or used.

- (ii) Adjustments for the balance of work-in progress valued at Rs.840,774 remaining under non-current assets even prior to 31 December 2009 had not been made even by the end of the year under review.
- (iii) Action had not been taken even in the year under review by the Industries to rectify the value of depreciation for lands amounting to Rs.2,654,357 up to 31 December 2015 in the financial statements.

### 2.2.2 Accounting Deficiencies

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A sum of Rs.554,790,332 received in various instances since the year 1993 from the General Treasury for covering the expenses of the Industries, had been brought forward in the financial statements under current liabilities.

### 2.2.3 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	51,183,525	} Letters of Confirmation of Balances
Receivable and pre-paid balances	40,832,835	
Employees' Salaries	955,314	Salary sheet for the Month of April

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) A balance of Rs.14,036,357 recoverable from an external investor to the Industries since the year 1993 had not been recovered even by 31 December 2016.
- (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) The balance of Rs.76,352,246 payable by the Industries to the Ceylon Electricity Board for the period from the year 1988 up to May 2010 had been shown under accrued expenditure without being settled even by 31 December 2016.

- (d) Action had not been taken even up to 31 December of the year under review to recover or settle the credit balances of Rs.1,924,611 relating to 12 Ledger Accounts under stocks and debtor balances and debit balances of Rs.45,397 relating to 03 Ledger Accounts under debtor balances, brought forward since the year 1993.

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

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The following instances of non-compliance with laws, rules, regulations, etc. were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(a) Financial Regulation 156 (5) and (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, the cash book and other Ledger Accounts of the Industries had not been maintained accordingly.
(b) Financial Regulation 757 (a)	The Inventory Book and the Register of Fixed Assets had not been balanced and a physical verification for stocks and fixed assets had not been carried out.

## **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 deficit of Rs.2,678,186 as against the surplus of Rs.151,583 for the preceding year, thus indicating a deterioration of Rs.2,829,769 in the financial result of the year under review as compared with the preceding year. The increase in the administrative expenditure by Rs.1,262,414 and the decrease in Treasury grants by Rs.1,082,963 in the year under review as compared with the preceding year, had been the main reason for the above deterioration.

## **4. Operating Review**

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### **4.1 Management Activities**

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A shareholder agreement had been entered into on 11 August 2016 between the Secretary to the Ministry of Finance on behalf of the Government of Sri Lanka and the SLI Developers (pvt) Ltd and MG Sugar Lanka (pvt) Ltd relating to the restructuring of the Industries and the following matters were observed in that connection.

- (a) In terms of the Agreement, activities on vesting of lands with the investor had been assigned to the Ministry of Lands. Nevertheless, that function had not been achieved up to January 2018. Moreover, encroachers in 96 official quarters owned by the Industries could be identified.
- (b) Even though the Minister of Finance had emphasized by the Letter No. HF/PE/CM/2017/10 of 30 January 2017 of the Secretary to the Ministry of Finance that action should be taken by the Ministry of Lands in collaboration with the investor to commence operations within 3 months by expediting activities relating to restructuring of the Kantale Sugar Industries, operations had not been commenced even up to January 2018.
- (c) The approval for the sale of assets had been given by the Letter No. PMO/01/ASR(CCEM)2017/01 of 17 March 2017 of the Secretary to the Prime Minister and instructions had been given to complete that purpose within 6 months. However, the process of disposal of waste had not been completed up to January 2018.
- (d) Even though the Minister of Finance had directed to immediately terminate the contract period of employees except the General Manager including two or three employees necessary for the operations of the Industries until the Industries is handed over to the new investor, action had not been taken accordingly. The number of employees attached even by January 2018 stood at 37.

### **4.2 Operating Activities**

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The Kantale Sugar Industries with an annual production capacity of 16,320 MT of sugar, 9,000 MT of Molasses and 3.9 million litres of Rectified Spirits had been vested temporarily with the Government from 01 September 1993 and no production activity whatsoever had been carried out after 31 March 1994.

### **4.3 Idle and Underutilized Assets**

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Two hundred and thirteen light and heavy motor vehicles valued at Rs.25,493,500 belonging to the Industries in unusable condition were decaying in the premises of Industries for a period of nearly 23 years.

#### **4.4 Resources of the Industries given to other Government Institutions**

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A motor vehicle owned by the Industries had been handed over to the Ministry of Lands at the beginning of the year under review and a sum of Rs.380,300 had been spent in the year under review by the Industries as an expenditure on repairs of this motor vehicle.

#### **4.5 Staff Administration**

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Even though 37 comprising 33 as employees for the safety of assets of the Industry and 4 as officers, are in the service, no approved cadre existed. However, functions of the Industries for which a Chairman or a Board of Directors have not been appointed at present, had been carried out by a General Manager under supervision of the Ministry.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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The draft Annual Report and financial statements should be furnished within 60 days after close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, financial statements had been furnished by the Industries only on 20 June 2017.

### **6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the General Manager of the Industries 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>
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(a) Accounting	Preparation of financial statements without following Accepted Accounting Standards.
(b) Stocks Control	Failure in taking action to eliminate or write off the outdated stocks by carrying out a stock verification.
(c) Fixed Assets Control	Failure in identifying the assets which should be disposed of by carrying out a physical verification and taking action accordingly.
(d) Human Resources Control	Failure in taking action to make use of the human resource in an optimal and effective manner.