

Hingurana Sugar Factory Limited – 2016/2017

The audit of transactions of the Hingurana Sugar Factory Limited for the years ended 31 December 2016 and 2017 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. The financial statements that should be furnished by the Factory for the years 2016 and 2017 had not been furnished even by the date of this Report. My observations which I consider should be furnished to the 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

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.

2. Financial Statements

2.1 Presentation of Financial Statements

Even though the Financial Statements and the Draft Annual Report should be furnished to the Auditor General within 60 days after the 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, the Financial Statements and the Draft Annual Reports of the years 2016 and 2017 of the Factory had not been furnished to the Auditor General even by the date of this Report.

2.2 Going Concern

This Institution which was privatized in the year 1993 had been re- acquired by the Government in the year 1997 due to this Institution not being successful. However, the service of all employees had been terminated by the payment of compensation in the year 2001 due to any manufacturing process whatsoever not being carried out for the year 1998 and the Galoya Plantations Private Limited had been established by giving a portion of lands belonging to the Factory and the buildings on lease basis for a period of 30 years. Only a General Manager being temporarily appointed is deployed in service at present despite 09 employees being deployed in service in the year 2016 for protecting the assets of the Institution and for the administrative activities and a minus net assets position amounting to Rs.1,445,210,731 remained as at 31 December 2015 in the Institution. As such, it was observed in audit that the Going Concern of the Institution remained uncertain.

2.3 Maintenance of Registers and Books

The Account Books and Registers relating to the years 2016 and 2017 had not been completed.

2.4 Existence of Assets and Liabilities

Details on the Assets, Liabilities, Income and Expenditure stated in the financial statements as at 31 December 2015 finally prepared by the Factory appear below.

Assets	Liabilities
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	Rs.
Non- current Assets	153,005,563
Current Assets	147,279,541

Total Assets	300,285,104
	=====
Liabilities	

Current Liabilities	83,806,918
Non- current Liabilities	1,661,688,913

	1,745,495,831
Net Assets/ Ownership	(1,445,210.731)

Total Liabilities and Ownership	300,285,100
	=====
Total Income	11,702,140
Total Expenditure	10,193,734

Surplus/ Deficit	1,508,406
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2.5 Lack of Evidence for Audit

The Expenditure and the Receipts received in the year under review could not be examined due to not furnishing the Payment Vouchers and the Cash Book relating to the year 2017 for audit. Moreover, the accuracy of the assets also could not be confirmed on not taking action to carry out a physical verification from over a period of 20 years relating to the assets belonging to the Factory.

3. Operating Review

3.1 Performance

The assets of the Institution remained idle due to not carrying out any manufacturing process whatsoever in the Factory from the year 1998 and those assets remained in a condition not suitable for use. Moreover, a sum of Rs.3,341,294 had been spent for the payment of salaries, Employee Provident Funds, Employees Trust Funds, fuel expenses as the expenditure of the year and a sum of Rs.2,887,610 had been received by the Line Ministry for the settlement of that expenditure.

3.2 Management Activities

The following observations are made.

- (a) Lands in extent of ,277.73 hectares and factory buildings relating thereto belonging to the factory had been given to the Galoya Plantation Private Limited in the year 2007 on lease basis for a period of 30 years. Even though it had been informed to prepare an agreement and to take action to obtain the approval of the Attorney General thereon as per the decision of the cabinet of the ministers No.09/0398/003 of 06 March 2009 and dated 18 March 2009, action had not been taken accordingly up to the date of this report.
- (b) Even though lands 11232 acres in extent, lands 2.5 acres in extent each had been provided among 4493 farmers before about 20 years, taxes had not been recovered from those lands and the period of the lease agreements had also been lapsed. As such, necessary action had not been taken either to re- acquire lands or to enter into fresh lease agreements and to entrust them and to recover taxes.
- (c) Unauthorized residents reside in 91 official residences out of the 273 official residences belonging to the Factory and legal action had not been taken to remove them and action had not been taken to recover the rents from other official residences.
- (d) Assets including machines, equipment, 3 motorcycles and one motor vehicle belonging to the Bottle Manufactory and the machines and equipment remaining in the Hingurana Factory premises could not be used on being underutilized from the year 1997. It had been informed by the Letter dated 27 February 2018 of the Secretary to the Ministry of Industry and Commerce that action should be taken to obtain the Government Valuers' Reports on all assets remaining in the Factory and it had been ordered to take action necessary to identify the assets and liabilities and to settle them expeditiously for the liquidation of the Factory even by the Committee on Public Enterprises held on February 2017. However, action that should be taken in this connection had not been taken even up to the date of this Report.
- (e) Employees had been dismissed without taking action necessary to hand over the assets that were under the custody of those employees, to the officers responsible properly, which remains in the Hingurana premises and in the Narahenpita Head Office, prior to the dismissal of the employees.

4. Systems and Controls

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

Areas of Systems and Controls

Observations

(a) Control of Fixed Assets

Not taking action to specifically identify the assets belonging to the Institution and to estimate those assets and to document them.

(b) Control of Receivable and Payable Account Balances

Not taking action to recover the receivable money and to settle the payable money.