Lanka Sugar Company (Pvt) Limited - 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Sugar Company (Pvt) Limited ("The Company") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for theFinancial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Comments on Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance	Comments of the Management	Recommendation
(a)	In terms of paragraph 08 of Sri Lanka Accounting Standard 7, the bank overdraft should be shown in the financial statements as a component of cash and cash equivalents. However, the bank overdraft amounting to Rs. 665,484,944 had been indicated under short term bank loans in the statement of financial position by the Company.	Action will be taken to indicate the bank overdraft in the financial statements as cash and cash equivalents.	In terms of Sri Lanka Accounting Standard 7, the bank overdraft should be shown in the financial statements as cash and cash equivalents.
(b)	After vesting the Pelwatte Sugar Industry and Sevanagala Sugar Factory in the Lanka Sugar Company (Pvt) Limited, assets had been revalued in the years 2013 and 2014. However, action had not been taken to adjust the revalued amounts of other assets in accounts except for a part of machinery of Sevanagala Factory. Problems relating to revaluation errors and ownership of assets had been indicated in the financial statements as reasons therefor. However, action had not been taken to revalue assets again in terms of Sri Lanka Accounting Standard 16 by correcting relevant errors. Instead of that, the book value of assets vested amounting to Rs.2,900,032,369 owned by Pelwatte Industry had been	It is a fact that revaluation of assets at the time of vesting this institute or thereafter, had not been carried out according to Sri Lanka Accounting Standard 16. In vesting the institute in the Government, all fixed assets of the institute are transferred to the Lanka Sugar Company (Pvt) Limited at the value existed and provision for depreciation is made on the said cost. Even though a valuation report had been issued on fixed assets of the institute by Government Valuation Officers at the time of vesting, it could not be brought to account due to certain shortcomings. Further, action can be taken to revalue assets accordingly and	Action should be taken to resolve problems regarding the ownership of assets and to revalue assets in terms of Sri Lanka Accounting Standard 16 and to adjust accounts on accurate values.

	included in the financial statements. Moreover, action had not been taken to vest and account other assets except for assets of the Sevanagala Factory, purchased later. As such, it was observed that those assets and corresponding depreciation values had not been disclosed in the financial statements in a fair manner.	to make relevant adjustments in the financial statements of the institute.	
(c)	In terms of paragraph 57 of Sri Lanka Accounting Standard 19, the actuarial loss of Rs.1,283,929 relating to allocating gratuity of the year under review by the Sevangala Unit had been written off against the profit without indicating under other comprehensive income.	Steps will be taken to rectify the error.	Gratuity should be accounted in terms of paragraph 57 of Sri Lanka Accounting Standard 19.
(d)	In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the property, plant and equipment costing Rs. 650,635,732 had been fully depreciated as the useful life of non-current assets had not been reviewed annually. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8 and to indicate the correct carrying amount in the financial statements.	Relevant adjustments will be made in reports on accounts by carrying out an accurate revaluation of assets through the Valuation Department in future.	In terms of paragraph 51 of Sri Lanka Accounting Standard 16, action should be taken to review the useful life of non-current assets annually and to indicate the correct carrying amount in the financial statements in terms of Sri Lanka Accounting Standard 8.
(e)	Even though the Company had failed to recover the sum totalling Rs.19,498,293 receivable from five related parties, for a period of 5 years, provision had not been made for losses relating thereto in terms of paragraph 59 of Sri Lanka Accounting Standard 36.	As it is impossible to recover the said amount, action will be taken to write off from accounts.	Proper action should be taken to recover the said amount and to make provision for losses relating thereto in terms of paragraph 59 of Sri Lanka Accounting Standard 36.

1.5.2 Accounting Deficiencies

Audit observation	Comments of the Management	Recommendation
(a) Depreciation for fixed assets purchased during the year under review had been computed for the whole month of purchase without computing from the date of purchase of assets by the Sevanagala Unit, thus overstating the depreciated value for the year under review by Rs. 1,448,623 in accounts. As a result, the profit and the net value of fixed assets of the year under review had been understated by the same value.	Action will be taken to rectify the error occurred in computing the depreciation.	Depreciation should be computed from the date of use of assets.
(b) Even though the interest income on fixed deposits received in cash during the year 2018 by the Pelwatte and Sevanagala units had been Rs.76,324,750 and Rs.109,531,116 respectively, it had been indicated under investment activities as Rs.89,303,735 and Rs.124,848,195 respectively and the said difference had been adjusted under working capital changes. As such, investing activities had been overstated by Rs.12,978,985 and Rs.15,317,079 while operating activities had been understated by the same amount in the cash flow statement.	In the preparation of the cash flow statement, the total of interest income received and to be received has been indicated under investing activities.	Cash flows should be represented through the cash flow statement accurately.
(c) The Company had not computed output tax amounting to Rs.10,453,438 for income from other services amounting to Rs.43,889,267 and sundry income of Rs.25,800,321 including the Value Added Tax earned during the year of assessment.	At present, the Company has been exempted from the Value Added Tax and further steps will be taken to pay tax liabilities payable.	Tax computations should be done accurately and payments, be made on due date.
(d) In the computation of capital allowance for plant and equipment of factories, the capital allowance	Action will be taken to make relevant rectifications by holding discussions with Tax	Adjustment of tax should be carried out accurately.

ratio to be applied as per Inland Revenue Act, No.24 of 2017, had been 20 per cent, the Company had applied 33 ½ per cent and in terms of Gazette Extraordinary No.2064/53 dated 01 April 2018 issued relating to the year of assessment 2018/2019, losses of Rs. 642,147,147 brought forward for a period of 06 years prior to the year of assessment considered, can be deducted in computing the profit on tax. However, the Company had deducted only 35 per cent from statutory income, and as such, over provision for expenditure on income tax of the year of assessment had been made by Rs.70,746,831.	Consultants of the Company regarding allocation of over provision for tax expenditure by Rs. 70,746,831.	
(e) The value of customs duty amounting to Rs. 575,359 paid in the importation of factory spare parts during the years 2013 and 2015 of the Pelwatte Unit should be considered as an expenditure of the relevant year. However, advances and payments made in advance had been brought forward as a balance even by the year under review and as such, advances and payments made in advance had been overstated by the same amount.	Action will be taken with the approval of the Top Management of the Company to write off the said amount remained as a balance in Advance payment Account by mistake in preparing total cost of goods.	Customs duty should be brought to account considering as an expenditure of the relevant year.

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per corresponding reports	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		

(a) Trade and other receivables				The Withholding Tax amounting to Rs.11,497,165 recovered during the years 2017 and 2018 for fixed deposits, is attributed to the difference of the value of balances receivable to the Pelwatte Unit. As such, the balance should be rectified as Rs.75,471,697 as per debtors schedules. Action will be taken to rectify the said difference occurred due to transfer of Withholding Tax relating to the Pelwatte Unit to the Sevanagala Unit in computation of income tax in the consolidated financial statements. No comments have been made on the difference of farmers loan balances amounting to Rs.2,298,208 of the Sevanagala Unit.	Figures indicated in the financial statements should be reconciled with registers and schedules accurately.
Pelwatte Unit	86,968,862	75,471,697	11,497,165		
	209,621,311	221,118,476	11,497,165		
Sevanagala Unit	219,190,134	216,891,926 (As per schedules)	2,298,208		
(b)Farmers Loans - Sevanagala Unit					
(b) Income ----------				Further examinations should be carried out in this connection.	Tax should be computed based on accurate income.
(i) Income from Nation Building Tax	6,312,643,943	6,110,708,431	201,935,512		
	6,312,643,943	**,259,864,604**	**52,779,339**		
(ii) Income from Economic Service Charges					

1.5.4 Lack of Evidence made available to Audit

Item	Amount	Audit Evidence not made available	Comments of the Management	Recommendation
	Rs.			
Factory spare parts brought to account as online stocks, ordered by the Pelwatte Unit from the year 2013 to the year 2017	5,924,850	Evidence of which factory spare parts had been ordered and the reason for non-receipt of those stocks, had not been made available to Audit.	The balance as at 01.01.2013 amounts to Rs. 3,186,399 and the sum paid to 10 institutions from the year 2013 to the year 2017 amounts to Rs. 2,738,440.49. Out of that, the sum of Rs. 1,018,358 relating to the year 2017 has been settled by receiving goods during the years 2019/2020. Action will be taken to write off the sum of Rs.4,906,491.99 remained unsettled since prior to the year 2014, from financial statements after receiving approval of the Board of Directors.	As this is observed as a contentious transaction, correct decisions should be reached by conducting a full investigation.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken even up to the end of the year under review to obtain supplies relating to advances of Rs,4,074,404 or to recover the said moneys granted to factory spare parts suppliers of the Pelwatte Sugar Unit from the year 2000 to the year 2017.	Most of advances paid to suppliers relating to the years 2016 and 2017, had been settled by receiving goods and advance balances not recovered prior to the year 2015 have been recorded in reports on accounts. Action will be taken to write off those balances from financial statements with the approval of the Board of Directors.	Steps should be taken to recover the said moneys by looking into the requirement for placing orders, reasons for non-receipt of goods and officers responsible therefor.
(b) Sums of Rs.326,014,262 and Rs.6,475,123 as farmers' loans in the Pelwatte Unit and Sevanagala Unit and	Farmers associated with Pelwatte Unit cultivate sugarcane with the help of rain water and as such, the sugarcane harvest obtained per 01 hectare is about 40 metric tons and the number	Proper action should be taken to recover outstanding loans.

	Rs.7,741,248 receivable to the Sevanagala Unit from a private company had remained unrecovered for over a period between 3 and 5 years.	of turns of harvesting is about 03 seasons. The harvest is affected by drought and attack of wild elephants. As various measures have already been taken to increase the harvest of farmers, it is possible to increase the percentage of recovery of farmers' loans in future. Action will be taken to recover loans by directing farmers of the Sevanagala Unit towards the cultivation of sugarcane repeatedly and to recover loans from the private company.	
(c)	Action had not been taken to recover a sum of Rs. 1,202,124 receivable to the Pelwatte Unit from 07 private parties since the year 2014.	Out of the said amount, a sum of Rs. 1,021,627 has been granted as an interest free loan in the year 2014 for repairs of employees club of the Company, which was destroyed by fire and the said amount could not be recovered as operations thereof have been discontinued. Action will be taken to recommence this employees club and to recover the said amount. Moreover, action will be taken to write off from books, the balance of Rs. 180,467 receivable from 06 parties with the approval of the Board of Directors.	Proper action should be taken to recover all loans receivable.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to settle the sum totalling Rs. 136,789,984 payable to 04 suppliers of the Pelwatte Unit for over a period from 05 years to 07 years.	Action will be taken to pay moneys which could not be settled due to financial difficulties of the Pelwatte Unit. Action has not been taken to settle the sum of Rs. 24,784,659 payable to a private company when vesting the institute in the Government as the relevant institute had not made a request therefor. Action has not been taken even up to now to take away stocks of sugar relating to a sum of Rs. 8,089,000 received for selling of sugar to Lanka SATHOSA in the year 2013. Any request whatsoever has not been made by the Employees Provident Fund regarding the penalty amounting to Rs.13,658,977 payable in the year 2013 to the Employees Provident Fund. The said amount can be eliminated from reports on accounts with the approval of the Board of Directors after obtaining confirmations from the relevant institute.	Proper action should be taken to settle moneys payable.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance Rs.	Comments of the Management	Recommendation
(a) Section 26(1) of Value Added Tax Act, No.14 of 2002 and Section 04(i) of Nation Building Tax Act, No.09 of 2009	Tax computed as at the last day of every month should be remitted to the Inland Revenue Department on or before twentieth day of the following month. However, action had not been taken to pay the value of Value Added Tax amounting to Rs.35,054,595 and Nation Building Tax of Rs.93,091,778 payable from the year 2012 to the year 2017.	Payment of taxes had been delayed due to unfavourable financial position in the Pelwatte Unit.	Taxes should be paid duly in terms of relevant Acts and action should be taken to pay taxes in arrears.
(b) Section 6 of Economic Service Charge Act, No.13 of 2006	The economic service charge computed as at the last day of every quarter should be paid on or before the twentieth day of the month immediately succeeding the end of that relevant quarter. Nevertheless, Service charges totalling Rs.6,000,000 relating to 02 months of the year under review had been remitted by the Company with a delay of 181 and 271 days respectively.	Further steps will be taken to avoid such delays occurred in paying service charges due to unfavourable financial position of the Company.	Taxes payable to the Government should be duly paid.

(c) Section 6.5.1 of the Circular No.PED/12 of 02 June 2003 of the Department of Public Enterprises.	Even though the financial statements and Draft Annual Report should be presented to the Auditor General within 60 days after closure of year of accounts, financial statements of the year 2018 had been presented to the Auditor General on 31 July 2020 with a delay of 17 months and those financial statements had been approved by the Board of Directors only on 31 October 2019.	Action will be taken to present the financial statements and Draft Annual Report from ensuing years to the Auditor General within 60 days after closure of the year of accounts.	In terms of circular instructions, the financial statements and Draft Annual Report should be presented to the Auditor General within 60 days after closure of the year of accounts.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a loss of Rs. 163,387,022 as against with the profit of Rs. 127,659,841 for the preceding year, thus observing a decline of Rs.291,046,863 in the financial result. As compared with the preceding year, the decrease in the total income of the Company by Rs.1,301,349,818 and increase in the total expenditure by Rs.1,010,303,003, had mainly attributed to the said deterioration.

3. Operating Review

3.1 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Provision of Rs. 9,251,437 made for out-dated stocks remained at the time of vesting the Pelwatte Unit in the Government had been brought forward in the financial statements up to the end of the year under review without taking action to settle it.	Provision of Rs. 9,251,437 made for immovable, slow-moving stocks of spare parts kept in stores of the institute had been indicated in reports on accounts even before vesting the institute in the Government. After obtaining the approval of the Board of Directors, it can be eliminated from financial statements.	Out-dated and slow-moving stocks should be disposed of in a manner beneficial to the Company.

3.2 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
The project commenced by spending Rs.37,410,797 before vesting the Pelwatte Unit in the Government and 05 other projects commenced by spending Rs.53,701,955 after vesting in the Government had been abandoned halfway without completing. However, the Board of Directors had not paid attention thereon and those had been indicated as work in progress in the financial statements.	Decisions can be taken after drawing attention of the Board of Directors towards the Hotel Project abandoned by spending Rs.37,410,797 even before vesting the Institute in the Government and incomplete projects abandoned after vesting in the Government.	Projects should be completed without delay by looking into reasons for delay.

	Value
	Rs.
Land Development Activities - Pelwatte	19,794,226
Buildings - Pelwatte	4,259,866
Compost Plant	571,362
Power Generation Project	2,008,690
Waste Water Treatment Plant	27,067,811
	53,701,955