

Kantale Sugar Industries Limited - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kantale Sugar Industries Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Industry give a true and fair view of the statement of financial positions as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 the Financial 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 determine 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 Industry'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 intend to liquidate the Industry or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No.19 of 2018, the Industry 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 Industry.

1.4 Audit Scope

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, misrepresentations, 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 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 Industry'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 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 Industry, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Industry has complied with applicable written law, or other general or special directions issued by the governing body of the Industry;
- Whether the Industry has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to relevant Standard	Comments of the Management	Recommendation
(a) Although the closing stock should be calculated and accounted at the lower of cost and net realizable value in accordance with paragraph 09 of Sri Lanka Accounting Standards 02 and the accounting policy of the Company, the stock balance of Rs.47,440,818 which had been in warehouse for more than 20 years without being used, had been stated at cost in the financial statements without an annual stock survey and calculation of net realizable value. Also, adjustment had not been made in respect of the unusable stock balance included in this and a credit balance of Rs.100,682 had been also included in that.	The Kantale Sugar Industries was dismissed the employees from service on 31.03.1994 after paying compensation. Since there was no production activity in the institution, there was no use of stocks and, the chairman who came in 1997 conducted a survey of all the warehouse buildings and sealed the warehouses. Thereafter, annual stock survey was not conducted and write-off for outdated stocks has not been made.	Stock should be valued and disclosed in the financial statements in accordance with Sri Lanka Accounting Standards.
(b) A balance of sundry advances totalling Rs.9,701,467 which had been outstanding for over 25 years had not been recovered by the end of the year under review and the necessary evidence to confirm those balances was not presented to the audit. Although the recovery of these balances was in the uncertain condition, the necessary adjustments had not been made.	The balances are come from before 1994. These balances have been carried forward without any formal decisions being taken. These balances are advances to be recovered from employees who have vacated the service and advances to be recovered from sugarcane land plotters. Due to the closure of this institution, it is in a state of irrecoverable. Any loan or advance has not been paid since 1994 and travel expenses have not been received as advances and settled.	A formal evaluation of irrecoverable advances given before 1994 should be carried out and action should be taken to remove them from the accounts only with proper approvals.

- (c) At the end of the year under review, there was a payable balance of Rs.76,352,246 to the Ceylon Electricity Board and action had not been taken to settle this balance for more than 10 years. Similarly, although there were outstanding advances, balances payable to the State Resources Management Corporation and balances payable towards Employees Provident Fund, Employees Trust and Gratuity of Rs.23,244,703, Rs. 16,598,343 and Rs.23,293,031 respectively, an age analysis with evidence to confirm those balances was not submitted to the audit and the necessary adjustments had not been made even though the payment was in an uncertain state.
- In the discussion held on the advice of the Attorney General regarding the amount of Rs.76,352,246 payable to the Ceylon Electricity Board, it has been stated that, a decision should be reached by the Secretaries of the Ministry since it is a government institution. Rs.23,244,703 is a balance that existed before the year 1993. Regional purchases were not made after the year 1993. Rs.16,598,343 is an excess amount received from the Kantale Institute when it issued scrap iron. Rs.20,330,623 is the gratuity amount to be paid to the 34 employees currently in service and the 03 deceased employees.
- Payable balances should be properly assessed and settled immediately.
- (d) Although there was a credit balance totalled to Rs.1,823,958 in the receivables and prepayments balance in the statement of financial position for the year under review which was over 25 years ago, the necessary confirmation documents to verify that balance were not submitted to the audit.
- These credit balances are balances that existed before 1994. The documents required to present evidence regarding those balances have been destroyed in the archives of the institution. The credit balances in those accounts have arisen due to the accounts not being maintained properly.
- Receivable balances should be properly assessed and accounts should be corrected.

1.5.2 Going Concern of the Industries

Audit Observation

The Kantale Sugar Industries, which was established in 1957 had an annual production capacity of 16,320 metric tons of sugar, 9,000 metric tons of molasses and 3.9 million liters of maturated spirit. Due to serious inefficiency and irregularities in the administration and operations of the Industries, all 1,133 employees were terminated in 1994 by paying gratuity and the Industries has been closed down without any production activity

Comments of the Management

The Sri Lankan government has entered into a Memorandum of Understanding with two institutions on 18.08.2021 to initiate the relevant project and has agreed to enter into a supplementary agreement in the future.

Recommendation

Immediate action should be taken to commence the activities of the Industries based on a formal agreement.

since then. Also, although a Memorandum of Understanding was signed with two private companies in 2021 to commence production at the Industries, the going concern of this Industry remains uncertain as production activities have not been started as of the date of this report.

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

Reference to Compliance-Non Laws, Rules and Regulations	Comments of the Management	Recommendation	
Section 6.5.1 of the Public Enterprises Department Circular No.PED/12 dated 02 June 2023	Although the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, the financial statements for the year 2019 had been submitted to the Auditor General on 01 February 2023.	The Ministry has examined the financial statements and submitted them on 2023.02.01. This Industry has been closed without production activities.	Although the services of the employees of the Industries have been terminated, since its assets and liabilities have not been settled and liquidated in a formal manner, the accounts should be prepared in accordance with the circular and submitted for audit.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs.8.65 million and the corresponding deficit for the previous year was Rs.13.19 million. Accordingly, the deficit had decreased by Rs.4.54 million, and the increase in treasury grants by Rs.6.28 million compared to the previous year was the main reason for this decrease in deficit.

2.2 Trend analysis of major Income and Expenditure Items

Item	Year		Variation Rs.	Percentage of Variation (%)
	2019 Rs.	2018 Rs.		
Income				
Treasury Grants	10,701,472	4,419,695	6,281,777	142
Other income	419,496	607,893	188,397	31
Expenses				
Administrative expenses	19,762,322	18,217,602	1,544,720	8

2.3 Ratio Analysis

The current and quick asset ratios for the year under review were 0.61:1 and 0.28:1, while those ratios had been 0.63:1 and 0.29:1 in the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Although the operational work has not been carried out in the Industries since 1999, 34 employees who were terminated the service receiving compensation in the past including General Manager are still working for the protection of assets and administrative work only and, Rs.61,369,907, Rs.9,409,962 and Rs.5,650,470 had been paid to these employees as salaries and wages, overtime and provident fund respectively during the last 5 years. According to the financial statements, the gratuity liability at the end of the year under review had been Rs.20,881,623.	Management has not commented.	Necessary actions should be taken immediately to prevent unnecessary expenses.