

Lanka Sugar Company (Private) Ltd - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Sugar Company (Private) Ltd “Company” for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 report to Parliament appear in this report.

I do not express an opinion on the financial statements of the Lanka Sugar Company (Private) Ltd. Because of the significance of the matters described in section of basis for disclaimer of opinion in this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I have not been able to confirm or verify the quantitative items which include the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows by alternative means. As a result, I was unable to determine whether any adjustments needed to be made to the recorded or unrecorded values or transactions of the values or items forming the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.

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 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 intend to 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 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Management Comments	Recommendation
(a) Although balances of assets, liabilities and income expenditure cannot be offset according to paragraph 32 of Sri Lanka Accounting Standards 01, due to an error in the computer system existed since Sevanagala Sugar Industries Pvt. Company was taken over by the government in the year 2011, a credit balance of Rs.300,186,439 of the total of stationery, fertilizers and weed killer stocks was offset against the total stock value of Rs.412,530,957 and the stock value had been shown in the financial statements as Rs.112,344,518.	That it will be corrected in the next year.	The relevant Sri Lanka Accounting Standard should be followed.
(b) According to paragraph 66(c) of Sri Lanka Accounting Standards No.01, although only assets recovered within 12 months from the end of the accounting period should be reported as current assets, a loan amount of Rs.22,473,699 being recovered from a period of 02 to 05 years from the staff of the Sevanagala Division, a fixed deposit of Rs.43,544,918 maturing on 22 April 2024 in Palwatta Division and 02 fixed deposits worth Rs.45,000,000 maturing on 28 November 2022 in Sevanagala Division had also been mentioned under current assets in the statement of financial position.	That it will be corrected in the accounts in the year 2021.	Only assets maturing within 12 months from the end of the reporting period should be reported as current assets.
(c) According to paragraph 07 of Sri Lanka Accounting Standards No.07, 13 fixed deposits worth Rs.522,603,571 in Sevanagala Division and 04 fixed deposits worth Rs.396,749,217 in Palwatta Division which mature in 03 months and less had not been shown in the cash flow statement and categorized as cash and cash equivalents.	That it will be corrected in the accounts of next years.	Cash flows should be accurately represented in the cash flow statement.

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| (d) | <p>Due to annual review of the useful life of non-current assets was not done according to paragraph 51 of Sri Lanka Accounting Standards No.16, property plant and equipment worth Rs.243,940,222 in Sevanagala Division and Rs.1,065,219,304 in Palwatta Division which had been fully depreciated by the end of the year under review had been still in use and that estimated error was not revised as per the Sri Lanka Accounting Standards No.08 and correct fair value had not been shown in the financial statements.</p> | <p>Also at the time of institution was taken over by the government in the year 2011, the fully depreciated assets were also in the fixed asset register and the assets will be revaluated and accounted in the future.</p> | <p>The useful life of non-current assets should be reviewed annually In accordance with paragraph 51 of Sri Lanka Accounting Standard No.16, and revised in accordance with Standard No.08 and the correct fair value should be indicated in the financial statements.</p> |
| (e) | <p>04 lawsuits against employees and external parties by the Palwatta Division and 20 lawsuits against the employees and external parties by the Sevanagala Division of the company were pending and 02 lawsuits against Palwatta division of the company and 08 lawsuits against Sevanagala division by external parties and employees demanding unfair terminations of service, request for re-employment, request for service extension, getting grade promotion, inability to get gratuity due to the company being taken over by the government etc were pending. According to paragraphs 84, 85 and 86 of Sri Lanka Accounting Standards No.37, provision for contingent liabilities in the financial statements had not been made or the details of the cases had been disclosed considering the current situation of those cases.</p> | <p>Opportunity was not to disclose because the accounts related to the year 2020 had been submitted for audit. That it will be corrected in the accounts of the year 2021.</p> | <p>Provision for contingent liabilities should be made or disclosed in the financial statements in accordance with the provisions of Sri Lanka Accounting Standards No. 37.</p> |

1.5.2 Non-compliance with accounting policies

Audit Observation

Although the significant accounting policies used in the preparation of financial statements must be disclosed according to the paragraph 117 of Sri Lanka Accounting Standards No.01, in Palwatta and Sevanagala divisions, provisions for impairment of Rs.530,481,173 and Rs.9,242,963 were made for farm loans of Rs.1,261,910,806 and Rs.266,462,262 respectively and Rs.6,002,360 due from Kantale Sugar Company and Rs.6,665,725 due from the Small Scale Sugarcane Cultivation Project (SSP) were not recovered from the

Management Comments

That the policy of provisions for impairment will be disclosed in future accounting reports.

Recommendation

The policy of provisions for impairment should be disclosed in the financial statements.

year 2014 and provisions for impairment had been made for that amount. Nevertheless, the reasons for those provisions and the related accounting policy had not been disclosed in the financial statements.

1.5.3 Accounting deficiencies

Audit Observation	Management Comments	Recommendation
(a) The amount of economic service charges of Rs.80,086,509 that was cut off as of 31 December 2020 had been recorded as tax paid under operating activities in the cash flow statement and the economic service tax value of Rs.6,691,840 had not been shown in the cash flow statement.	That the cash flow statement will be corrected.	Cash flows should be presented accurately.
(b) Although all assets and liabilities belonging to Sugar Industries (Private) Company Sevanagala in the year 2013 were to be transferred to Lanka Sugar Company in accordance with the Revival of Underperforming Enterprises or Underutilized Assets Act No.43 of 2011, action had not been done for taking over of 469.1674 hectares of land related to Sevanagala Division until the end of the year under review.	The ownership of these lands has not been received by Ceylon Sugar Company-Sevanagala so far. That the legal work is being done for that.	Action should be done to verify the ownership of land and buildings belonging to the company and those should be documented and accounted.
(c) Although other stocks in Sevanagala Division as of 31 December 2020 had been physically verified, instead of the value of the actual stocks included in that report, the value of Rs.524,970,955 as per the stock ledger had been included in the financial statement.	Even though the stocks are continuously included in the physical stock due to the fact that, inclusion of items donated to the institution by the Indian company that established the plant since the establishment of the institution 35 years ago in physical stock and there are problems with in the calculation of their values, non-recognition of net values of certain items in cases where the company values the stock to be taken over by the government and legal ownership is not fully owned by the government, it is not possible to include them in the financial statements.	The stock balance included in the physical verification report should be presented in the financial statements.

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| (d) | The 55,528 kg of sugar worth Rs.6,108,000 to be provided at the welfare price included in the stock verification report of Sevanagala division had not been included in the financial statements and the crude oil stock of Rs.35,365,825 included in the financial statements had not been subjected to physical stock verification. | That it will be corrected in the next year. | All stocks should be physically verified and presented in the financial statements. |
| (e) | According to the physical stock verification reports of the year 2020, there was a shortage of 207 stock items worth Rs.785,662 and an excess of 150 stock items worth Rs.506,199 in stores of Sevanagala Division, and 1250 types of stock that were physically verified but value could not be calculated and 250 stock items worth Rs.2,888,359 that should be disposed were in the store and adjustments had not been made in that regard in the accounts. | Further action is being taken regarding these stock balances and the existing legal restrictions have also led to this. | Action should be taken to deal with shortages and excesses by maintaining proper internal control over stock and reflect the balance included in the physical verification report in the financial statements. |
| (f) | There is a balance worth Rs.9,475,416 "Transit Fixed Assets" in the stock of stationery, fertilizers and herbicides in the financial statements of Sevanagala Division since the year 2013 and although the audit has pointed out the facts in previous years, have not been taken any necessary action in this regard and the value remained the same in the financial statements of the year under review. | An ERP system has been installed and its basic functions are currently being implemented in the organizations. That it is possible to overcome the shortcomings in the "accounting software system" that is currently being used. | As it is observed as a controversial transaction, a thorough investigation should be done and correct decisions should be taken. |
| (g) | Instead of the value of work in progress Rs.41,273,467 in Sevanagala Division shown as a separate item under non-current assets, it was added to the value of property, plant and equipment and shown as one item in the statement of financial condition. | That it will be corrected in the next year. | Work in progress should be shown separately under property, plant and equipment. |
| (h) | Although the inventory of Rs.4,904,160 which has been in inventory for more than 07 years has been include in the inventory of Rs.38,764,870 of Palwatta division as on 31 December 2020, correct information about this inventory was not identified and corrections had not been made in the accounts. Although this observation was | This balance that has being existed since the year before 2014 is an accounting error caused by the under-accounting of the cost of goods and that it will be look into this further and adjust the accounts in the future. | Check whether these goods have been received and take necessary action. |

pointed out in the audit reports in previous years, proper attention had not been given for that.

- (i) Depreciation rates was 15, 6 and 5 percent respectively for the field machinery and equipment (including leased assets), irrigation and miscellaneous equipment and factory plant and equipment that the total cost was Rs.3,779,454,934 included in the financial statements of Palwatta Division and no depreciation rate was mentioned for infrastructure. However, the accuracy of the depreciation expenses and depreciation allocations for the year under review could not be verified as the total cost of Rs.1,672,452,689 included in those assets had been depreciated at different rates between 2 percent and 50 percent.
- (j) Only Rs.12,653,693 of the compensation of Rs.40,430,655 requested from the insurance trust fund in the year 2019 for the "Modification Automation Factory Plant" machine for turning sugar into cubes in Palawatta division which was purchased on 30 June 2014 for Rs.42,529,510 and was destroyed by fire on 07 July 2018 had been received and the machine was not repaired with that amount and it has been stated as a balance of trade and other payable in the statement of financial position in the year 2020 and adjustments had not been made in the financial statements regarding the fire damage.
- (k) Even though the quarters in Sevanagala Division were used by 07 people, including a politician, two retired officers, a manager of a private company and 03 government officials, the residents were not evicted from the quarters and the amount of Rs.1,072,323 due from those parties for rent, water and electricity expenses as of 31December 2021 was not collected or accounted for as receivables.
- the assets that existed when the institution was taken over by the government in 2011 are included in the fixed assets register in the same way. According to the existing depreciation policy, the difference in depreciation rates existed. Since it is not possible to change the relevant percentages through the accounting system, the depreciation policy of the company will be updated with the asset policy in the future.
- Specific depreciation rates should be determined for the assets to be depreciated and the depreciation should be calculated in accordance with the depreciation policy
- Although the compensation amount of Rs.40,430,655 was requested for the hardware and software, the compensation for the software was rejected and the repair of the machine has been completed in the year 2021 and the adjustment and disclosure related to the installation of the new asset will be done in the year 2021. Depreciation of the software could not be stop due to the error was in the machine. That it will be corrected in the year 2021.
- Depreciation of the machine should be suspended and it should be disposed or repaired.
- They are staying in corporate quarters as unauthorized residents and legal proceedings are being carried out.
- Electricity and water charges should be borne by the officer and the company should take action to recover the charges paid.

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| (l) | According to the financial statements of the company, although the total value of 368 vehicles with registered numbers in the Palwatta Division and machinery used in the field is Rs.379,858,648, according to the information provided by the transport department, it was observed that there are 491 vehicles and machinery used in the field worth Rs.439,472,361. Accordingly, it was observed that 123 vehicles and machinery used in the field worth Rs.59,613,713 have been under-accounted. | That the vehicles that were in the financial statements of the company and the machines used in the field at the company was handed over to the government in the year 2011 are in the same way in the accounts and these vehicles have not been physically verified and adjusted in the accounting records until now and, the vehicles that newly purchases are in the accounts and this difference exists in the old vehicles that was taken over. An asset verification of the company is currently being done and after its completion, the accounts will be corrected. | All vehicles should be disclosed in the financial statements. |
| (m) | The "Wastewater Refinery Project" which was started in 2013 by buying machinery worth Rs.27,067,812 and stopped in 2014 by Sevanagala Division and the "Tube Well Project" which was built in 2014 at a cost of Rs.2,864,444 and not used had been failed and spent amount had been stated in the work-in-progress account from many years. | That the work on the wastewater refinery project had not been completed as of 31 December 2020 and that the "work in progress account" would be settled after the investigation regarding the construction of the tube well was completed which was conducted as a research project. | The reasons for the failure of these projects should be investigated and action should be taken to enable it or if there is someone's negligence, should take disciplinary action against it. |
| (n) | The balances of Rs.39,971,385 and Rs.4,691,459 respectively in two accounts maintained as "Creditor Control Account of Service " and "Creditor Control Account of Supply" of Palwatta Division as at 31 December 2020 remained unsettled from the year 2002 to the year 2019. Although these disputed transactions arose due to accounting system problems and other reasons, the company had not taken steps to settle them. | That it is expected that the previous loan balances will have to be paid when receiving the services again from these service providers and therefore loan balance has been carried forward without deduction and, after obtaining the approval of the director and confirming this balance, it will be removed from the accounts. | It should be ascertained whether these creditors are genuinely exist and appropriate action should be taken. |

1.5.4 Un-reconciled Control Accounts or Records

Audit Observation	Management Comments	Recommendation
According to the financial statements of Sevanagala Division, although the total amount of credit due from farmers under 11 ledger accounts is Rs.266,462,262, in the farm loan calculation and time analysis presented in relation to it, those values were Rs.263,857,771 and Rs.264,072,243 respectively. Accordingly, a difference of Rs.2,604,491 and Rs.2,390,019 was observed in the farm loan schedule and time analysis report when compared with the financial statements.	That the Sugarcane farmer loan, loan documents and existing changes will be further checked and corrected to ensure that the loan balance is correct.	Farmer loan balances should be presented accurately in the financial statements.

1.5.5 Documentary Evidences not made available for Audit

Audit Observation	Management Comments	Recommendation
(a) As of 31 December 2020, balance confirmations had not been obtained in relation to 97 trade creditor accounts amounting to Rs.29,416,348 belonging to Sevanagala Division.	That the balance of the trade creditors will be verified and submitted to the audit in the next year.	Evidence should be submitted to confirm the account balances shown in the financial statements.
(b) Tax payable (NBT) of Rs.92,125,804 relating to the period 2012 – 2016 had been included in the Nation Building Tax (NBT) payable of Rs.109,138,256 on manufactured sugar included in the financial statements of the Palwatta Division as at 31 December 2020. However, the accuracy of the tax amount included in the accounts could not be satisfied during the audit as tax reports were not sent to the Inland Revenue Department regarding these payable taxes.	That an amount of Rs.92,125,804 is to be paid as nation building tax relating to the period of the year 2012 to the year 2016 was in the accounts and in addition, there is an amount of Rs.17,012,452 to be paid in relation to the months of October and November of 2019 and accordingly, by 31 December 2020, an amount of Rs.109,138,256 is in the accounts as nation building tax payable.	Evidence should be submitted to confirm the account balances shown in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

t	Audit Observation	Management Comments	Recommendation
(a)	Advances of Rs.5,062,695 in Sevanagala Division and Rs.421,910 under prepayments have not been recovered since 01 year to more than 05 years.	That it will be settled in next year.	Efforts should be made to promptly investigate and settle outstanding advances and establish a proper internal control system related to purchases.
(b)	The amounts due from the Colombo Head Office that was the internal divisions of the company during the period between 2012 and 2020 and Palwatta Division to the Sevanagala Division were unsettled and Rs.110,497,848 and Rs.851,530,055 respectively had been shown as related parties under current assets in the accounts of the Sevanagala Division.	That it will be settled in next year.	Accounts receivable and payable balances from related public and private companies included in the financial statements and transactions between the respective divisions of Lanka Sugar Company Limited should be disclosed in detail.
(c)	Although the advances of Rs.8,233,150 given to suppliers on 39 occasions by the Sevanagala Division for import of goods and equipment had taken 4 to 8 years, the advances had not been settled by the date of the audit. The unpaid advance balance included goods clearance fees, transportation fees and insurance fees of Rs.509,808 paid for the purchase of goods and equipment on 21 occasions from 2016 to 2018.	That the special attention will be paid to this matter and action will be taken to settle the advances paid.	Efforts should be made to promptly investigate and settle outstanding advances and establish a proper internal control system related to purchases.

1.6.2 Payables

Audit Observation	Management Comments	Recommendation
The accounts continued to be brought forward without settlement of trade Creditors amounting to Rs.5,492,069 from 02 years to 07 years, Miscellaneous Creditors amounting to Rs.1,055,351 from more than 04 years and payables to Sugarcane Farmers amounting to Rs.61,322,678 for more than 08 years in the accounts of Sevanagala Division as on 31 December 2020.	In order to protect the sugarcane farmers after Sevanagala company was taken over by the government in 2011, it had to be calculated the payments that should have been paid to the sugarcane farmers for the supply of sugarcane in the year 2011 and in making that calculation in	Arrangements should be made for immediate settlement.

the year 2011, a receivable of Rs.59,792,499 which should have been collected from the sugarcane farmers has been recovered and the rest of the amount has been paid. That those receivables are related to the private regime and that it is possible to these balances to be paid will be settled as receipts and payments after the legal proceedings against Sevanagala are over and that the amount of Rs. 1,500,179 that was supposed to be paid by the Sugarcane Research Institute has been paid by now.

1.7 Non-compliance with laws, rules, regulations and management decisions etc.

Reference to laws, rules and regulation etc.	Non Compliance	Management Comments	Recommendation
(a) Order 30 of Part 1 of the Orders published by Extra ordinary Gazette No.1533/16 dated 25 January 2008 by the Minister in pursuance of the powers conferred by Section 23(a) of the National Environment Act No.47 of 1980	Annual Environmental Permit had not been obtained for Sevanagala factory for sugar production or sugar refining.	Until the end of 2019, environmental permits had not been obtained for the sugar factory and the refinery. A technical method was established to collect and remove the bagasse from the sugar factory without joining the environment and that the environmental permit can be obtained after the start of an organic fertilizer production project related to the refinery in the year 2022.	Environmental protection systems should be established and environmental permits should be obtained as per the Act.

(b) Establishment Code of the Democratic Socialist Republic of Sri Lanka

(I) Paragraph 9.1 of Chapter II

Although the prior approval of the cabinet should be obtained to re-employ in a government service post or employed in a government corporation a person who retired from government service, an internal audit consultant, a factory consultant and an acting secretary consultant were appointed without obtaining the relevant approvals. The need for these positions could not be satisfied during the audit as the company has not approved the recruitment procedure and the number of cadre from the treasury.

It has been arranged to stop the service of the Acting Secretary Consultant from 30.08.2022. That the services of Internal Audit Consultant and Factory Consultant will be discontinued after filling up the vacancies in the respective permanent posts in the near future.

Vacancies related to permanent posts should be filled.

(II) In Chapter XIX

i. Paragraph 6.2

It was observed that 36 officers who retired after serving in the Sevanagala Division have not returned their quarters and are still residing illegally as of the audited date of 31 August 2022. This situation would have arisen due to non-following of formal measures to take back the apartments at the time of retirement. Also, the company had not returned the 8 quarters given to the retired employees of the Palwatta division and had paid their electricity bills.

Out of the 08 houses provided by the Palwatta division for the retired employees, 02 houses have been acquired by the institution and a lawsuit has been filed for the acquisition of 02 more houses and 02 more houses have been given by agreements as a special service evaluation and that the parties who are in the remaining two houses are also involved in litigation with the institution.

Necessary actions should be taken to prepare the procedures for removal of employees from quarters on retirement and to remove existing retirees.

- ii. Paragraph 5.1 Although there were 520 The provision of free The officer should
- quarters given to officers in quarters to the employees bear the house rent
- Palwatta Division, the rent had of the company has been and repair expenses of
- not been charged from the done since the beginning of the houses and should
- officers and employees using the company. The recover the fees paid
- those quarters. management of the by the company.
- company has agreed in writing that all the privileges given to the
- employees will be given in the same manner when the company was taken over by
- the government in November 2011 and the employees have been
- assigned to Lanka Sugar Company. Accordingly, free quarters are still being
- provided. That the company has been carrying out the maintenance of the quarters
- since before.
- iii. Paragraph 5.2 The house rent charges which It was discussed in the The house rent should
- were charged between Rs.20 management meeting of the be revised to match
- and Rs.85 per month before institution regarding the the present.
- the Sevanagala division was charging of rent for the quarters in the future and
- taken over by the government that it was decided to seek the assistance of the
- had not been revised for over government assessment agency regarding the rent to
- 11 years. be charged.
- iv. Paragraph 5.8 Although the water bills and The Sevanagala division Electricity and water
- electricity bills have to be paid has given concessions on charges should be
- by the officer, the company water bills and electricity borne by the officer.
- had adopted a method of bills to the employees from The Company should
- bearing the cost that, charges the past and electricity is proceed to recover
- are collected from the officer supplied to all the quarters the fees paid.
- only when the water in the institution premises of the Palwatta division
- consumption in Sevanagala through the common electricity supply obtained
- Division is used more than 60 units and by recovering the remaining electricity bill from
- the remaining electricity bill from

the salary after giving a concession of Rs.250 monthly for electricity consumption. Accordingly, in 2020, the company had borne Rs.763,660 as electricity charges for quarters of officers. Also, one common electricity bill was used for the factory, office and 564 quarters in Palwatta division and the electricity cost incurred related to that by the company for 2,416,931 units of electricity in the year 2020 was Rs.38,769,975. And also, although there were separate electricity meters for executive quarters in Yalabowa a few kilometers away from Palwatta Division, the company had borne water charges of Rs.81,591 and electricity charges of Rs.253,607 for those quarters in the year 2020.

free water is supplied to these houses by a water refinery of the institution and that separate meters have not been installed and separate electricity and water menus have been installed for the quarters in Yalabowa area belonging to Palwatta, as well as water and electricity have been provided free of charge as an employee privilege from previous and that it was discussed regarding the charge in the above management meeting.

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| (c) Amended paragraph 2.14.1 of the Government Procurement Guidelines 2006 | Although only procurements up to Rs.10 million should be approved by the Departmental Procurement Committee, 07 procurements totaling Rs.153,400,390 and 04 procurements totaling Rs.66,882,405 in Palwatta Division and Sevanagala Division had been done under the Departmental Procurement Committees without complying with the reference guidelines. | That the current purchases are made in accordance with the referenced guidelines. | Government procurement guidelines should be followed. |
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(d) Public Enterprises
Circular No. PED/12
dated 02 June 2003

- (I) Paragraph 8.2.2 Although the agreement of the Minister of Finance and the approval of the concerned Minister should be obtained for investing the excess funds in fixed deposits, the relevant agreement and approval was not obtained for Rs.1,097,463,943 invested in 26 fixed deposits in Sevanagala Division as of 31 December 2020. That excess funds have been invested in fixed deposits with the approval of the Board of Directors. The approval of the Finance Minister should be obtained for investing the excess funds in fixed deposits.
- (II) Paragraph 8.3.3 (a) In order to receive bonuses and incentives for an company, although the financial statements and draft annual report must be submitted to the Auditor General within 60 days, without completing those requirements, incentives of Rs.163,848,135 for the Colombo Head office, Sevanagala division and Palawatta division for the year 2020 and Rs.17,347,859 bonus for the Sevanagala division and Colombo Head office for the year 2020 had also been paid on the approval of the Board of Directors. That the incentives have been paid since the year 2013 with the approval of the Board of Directors on the demands of the employees and trade unions. Approval of Treasury should be obtained before the payment of incentives.
- (III) Paragraph 9.3 Even though a recruitment procedure had to be approved based on the approval of the Public Enterprises Department, officials were recruited without such approval. The number of staff The company did not have an approved personnel plan or recruitment procedure until now and in the year 2022/2023, the company has prepared a personnel plan and obtained the A recruitment procedure should be prepared and approved for the company and all recruitment should be done in accordance with that.

was 933 in the year 2019 and it was 1070 in the year 2020. Accordingly, it was not possible to examine the accuracy of the number of posts, the method of recruitment and promotion and the accuracy of the pay scales during the audit.

approval of the board of directors and forwarded it for the approval of the management service board.

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| (e) | Paragraph 5(2) of Public Finance Circular No.01/2014 dated 17 February 2014. | In the year under review, annual action plan had not been prepared including the budget document, proposed major investments, capacity expansion, annual procurement plan, loan repayment plan, human resource development plan and internal audit plan. | That the Palwatta division has prepared the budget document, annual procurement plan, annual action plan and internal audit plan for the year 2020. | An action plan should be prepared annually. |
| (f) | Public Enterprises Circular No. PED 1/2015 dated 25 May 2015. | | | |
| (I) | Paragraph 3.1 | According to the referred circular, in addition to the amount of fuel available to the officers, the corporate circulars of the Chief Operating Officer allowed the officials who allocated official vehicles in the Sevanagala Division to drive the official vehicles for their personal journeys up to 960-1750 kilometers per month and the cost of fuel for the personal travel of 07 officers was Rs.1,326,844 in the year 2020 and that figure was Rs.1,533,716 in the year 2021. Also, officers owning official vehicles exceeded their fuel limit for official travel in | The relevant officials have been given privileges as per the circulars. Especially since the company is located in a remote and arduous area, that the officers are given these privileges as a motivation to serve in such a place. | Action should be done in accordance with the circular. |

Sevanagala Division and spent Rs.453,068 more in the year 2020 and the fuel cost that exceeded the limit was Rs.667,381 in the year 2021.

- (II) Paragraph 3.8 Although the overtime and other combined allowances paid to the drivers for the personal journeys should be borne by the officials who owning the official vehicles, the company had incurred Rs.868,975 as the expenses of subsistence, lodge fees, and overtimes in the year 2020 for the drivers of the official vehicles that was used for personal journey of the officials in Sevanagala division. That expense paid to the drivers for the private journeys of the officials in 2021 was Rs.418,500. Although those details for the years before 2020 were requested, it had not been submitted for the audit.
- Officials have been informed for implementation of circular PED 1/2015 from 01/01/2022. That the monthly supply of fuel has been suspended by allocating official vehicles for personal travel.
- It should be act in accordance with the Circulars.
- (g) Paragraph 2.1 of Financial, Economic and Policy Development Circular No.08/2019 dated 17 December 2019. Although all government agencies are required to register with the government's e-procurement system before 31 January 2020, Lanka Sugar (Private) Company Limited was not registered for e-procurement.
- That registration in the government's e-procurement system is underway.
- Should be registered in Government e-procurement system.

2. Financial Review

2.1 Financial Results

The financial result for the year under review was a profit of Rs.1,171,901,614 and correspondingly previous year loss was Rs.1,362,373,144. Accordingly, an increase of the financial result of Rs.2,534,274,758 was observed in compared to the previous year. This increase is due to the increase in the selling price.

2.2 Trend analysis of major income and expenditure objects

Audit Observation	Management Comments	Recommendation
(a) The sale price of ethanol was change by the chairman time to time as Rs. 500 and Rs. 550 per liter without formal procedure and had earned Rs. 4,739,495,500 by selling 9,774,282 liters of ethanol in the year 2020. In the same year, ethanol was sold at Rs. 683 and Rs. 700 per liter by competitive companies carrying similar production, but the company lost its revenue due to non-adherence to the prescribed pricing policies.	Based on the demand for the company's ethanol in the market, the company has set a competitive price so that it can sell the products. In the previous year, it was below Rs.300 in 2020 and due to the government suspended the import of ethanol, and in that situation, it has become very challenging to sell ethanol at the same price.	The sale price should be determined under a formal system.
(b) Regarding the planned targets and actual performance of the company in the year under review,		
(i) Although the estimated sugar production was 54,645 metric tons, due to the actual production was 39,697 metric tons, the quantity of the non-achieved target production was 14,948 metric tons or 27 percent.	About 5,372MT of sugar has been produced less than the expected production in this year and this because although the expected sugar supply is 375,000MT, only 323,106MT has been supplied to the factory and also the sugar absorption rate was decrease from 7.72% to 7.30% . The main reason for this is the unable to receive the fertilizer on time and this has also been affected to the Sevanagala division.	Necessary actions should be taken to increase the production capacity.
(ii) Although the expected quantity of sugarcane milling in the year was 677,322 metric tons, the actual milling quantity was 567,563 metric tons and the planned quantity of 109,759 metric tons or 16 percent could not be reached.	About 51,896 metric tons of sugarcane were supplied less in this year. In the years 2019 and 2020, there was a huge shortage of fertilizer in the country and the government had decided to release fertilizer only for paddy farming and accordingly, due to the restriction of fertilizer application for sugarcane cultivation, the	Necessary actions should be taken to increase the supply of sugarcane and the percentage of sugar.

sugarcane yield obtained from the unit area was greatly reduced. In addition, factors such as elephant damage and excessive white leaf disease in sugarcane cultivation are also the reasons for the decrease in the supply of sugarcane in these years.

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| (iii) | Although the annual sugar production data of the company for the last 05 years recorded the highest sugar production of 51,422 metric tons in 2016, in the year 2016, it declined to 39,697 metric tons. As a result, production in the year under review decreased by 11,725 metric tons i.e. 23 percent compared to the in the year 2016. | Considering the sugar production from 2016 to 2020, the reason for the gradual decrease in sugar production is that the quantity of sugarcane received by the factory in the years 2017, 2018, 2019 and 2020 was lower than in the year 2016 and the percentage of sugar absorption was at law level compared to the year 2016. | Necessary actions should be taken to increase the production capacity. |
| (iv) | According to the annual ethanol production data, ethanol was 11,917,279 liters in 2016, 7,045,223 liters in 2017, 9,787,942 liters in 2018 and 5,212,559 liters in 2019 and production of year 2020 was 8,813,623 liters. Accordingly, it was observed the decrease in production of year 2020 by 3,103,656 liters or 26 percent as compared to 2016. | Ethanol production depends on the demand for it and the stock of molasses owned by the company. The demand for ethanol produced by our company has decreased in other years compared to the year 2016 and the situation has been affected more in 2019 and there are instances when production has to be stopped in some years due to lack of molasses stocks. Even though the ethanol production declined in 2020 years compared to 2016, with the suspension of ethanol imports in year 2020, it has been able to increase again by 2021. | Necessary actions should be taken to increase the production capacity. |
| (v) | In the year under review, although the grinding capacity of the Sevanagala factory was 6,009 hours, the actual grinding time was 3,860 hours. The 2,149 hour non-operation of the factory due to shortage of sugarcane, factory failure, etc. has been affected to the decline in production. | That the efforts will be made to increase production in the future. | Necessary actions should be taken to increase the supply of sugarcane. |

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| (vi) | Although the total area under sugarcane cultivation owned by the Company was 14,168 hectares, at the end of the year under review, it was observed that due to the total area under cultivation was 12,785 hectares ,the unutilized land was 1,383 hectares. | Although the company can directly intervene in relation to the land cultivated by the company and the settlement farmers' land, that the company cannot influence the foreign farmers' land and the external farmers enter into sugarcane cultivation by considering the fertilizer subsidy provided by the company, increase in sugarcane prices etc. and if there are other crops that are more beneficial, they remove from the cultivation of sugarcane and then the change in the area cultivated is in the external farming sector and that the all the lands of the company cannot be carried out practically. | Attention should be paid to the cultivation of the entire land area. |
| (vii) | The quantity of sugar in the cane bars inserted into the factory machinery for production of sugar had decreased from 7.3 percent and 10.62 percent in Sevanagala and Palwatta division in 2016 to 6.53 percent and 9.50 percent in the corresponding year. Sugar absorption percentage also declined steadily from 7.3 per cent and 8.2 per cent in 2016 to 6.59 per cent and 7.3 per cent when the present year. | Due to dry weather conditions, more fires had to be diverted to the burnt sugarcane mill than in 2016. Due to the Covid-19 pandemic, the delay in the arrival of harvested sugarcane to the factory within the stipulated time and the rainfall pattern at that time was affected. | Necessary actions should be taken to increase the percentage of sugar. |
| (viii) | From 2018 to 2020, the production of sugarcane per hectare was gradually declining and in Sevanagala and Palwatta divisions, the production of sugarcane was gradually decline from 85 and 49 metric tons respectively in the year 2018 to 78 and 38 metric tons respectively in the year under review. | The reasons for the decrease in sugarcane yield per hectare was that due to the shortage of fertilizer in the local market, the amount of fertilizer applied to sugarcane cultivation decreased and the dry weather conditions and the prevailing rainfall pattern were affected. | Necessary actions should be taken to increase the production of sugarcane. |
| (ix) | The energy required by the factory is produced with the help of bagasse that is discarded from the sugar production process and once it is not sufficient, | That the energy production of the factory is carried out only on the days of milling of sugarcane and in the year 2016, about 416,340 metric | Necessary actions should be taken to increase the rate of grinding sugarcane. |

machines are operated using alternative sources. Although the factory power generation had increased to 15,682 MW in 2016, by the year of conversion it had decreased to 12,579 MW, nevertheless the company had failed to improve the situation due to a decrease in sugarcane milling.

tons of sugarcane was milled and by the year 2020 it has decreased to 323,106 MT. Therefore, the milling dated has been decrease in corresponding to that and power production has been decreased.

- (c) It was observed that due to non-recovery of Rs. 7,473,696 due in the years 2015 and 2016 for the sale of carbon dioxide gas in the Sevanagala division and action was not taken to revise the sales price for six years and to install a meter to measure the amount of carbon dioxide produced, formal steps were not taken to increase the company's revenue from the sale of carbon dioxide.
- A loan period of 60 days has been granted to the buyer as per the agreement. Rs. 7,473,696.48 has not yet been paid stating that the plant was started in late 2015, the company suffered a loss in 2015/2016 due to lack of adequate molasses combustion and the remaining amount has been recovered properly and arrangements have been made for the sale of Co2 at Rs.32 per kg since 01 December 2021. Currently calculation is being done on the weight of this Co2 and the possibility of installing a suitable meter for this purpose will be explored.
- Actions should be taken to revise the price, install a meter to measure the amount of carbon dioxide produced, recover the amount to be charged and act in a contractual manner.
- (d) Palawatta Division had purchased a crane machine worth Rs. 128,910,000 under lease facility in 2013 and paid Rs. 120,750,000 for that and spent Rs. 2,254,850 to provide electricity to that. However, due to non-installation of the machine in the factory as agreed by the supplier, the asset with a capital expenditure of Rs.123,004,850 has remained idle since the date of purchase and responsible parties has not been identified and disciplinary action has not been taken against them.
- Even though the repairs were made to this crane which broke down within a period of 03 months after it was purchased to insert rods into the factory, it was not successful and the payment of the lease value for the amount of Rs. 11,812,500 related to the cost of one part of the machine has been suspended. Regarding this project, although the Financial Crimes Investigation Division has conducted an investigation, final decision has not been given and an agreement has been reached with the relevant supplier to resume this project in the year 2023 and the management
- An internal investigation should identify the responsible parties and take disciplinary action and find out the progress of the investigation activities of the Financial Crimes Investigation Division and recover the same.

has informed to implement the project for 03 months during the Maha season of this year and submit the performance.

- (e) The Electro Magnetic Separator machine imported from India in 2018 for Rs. 11,412,646 for the requirement of the factory in Sevanagala division has not yet been installed and no certificate was issued by the company's engineer that it was in good condition. Also in the financial statements of the year 2020, this payment was accounted for as purchase advance and even today this asset is misused, therefore the cost has become a non-performing expense.
- Inquiries have been made to the officials of the Factory Division in this regard and it was stated that it is necessary to take the assistance of the officers of the Indian Company who imported the relevant equipment to get the machines installed to carry out the necessary instructions and tasks. After the installation of the relevant machine, the advance account will be settled.
- The machine should be installed and used.
- (f) According to an agreement made with Sevanagala Sugar Industry Institute and Sevanagala Community Organization and Mutual Aid Society before it was taken over by the government for a period of one year from 05 October 2008 to 04 October 2009, water was provided to the mutual aid society from the company's water bill and until 31 December 2020, i.e. for more than 10 years, water was provided to the society from the company's water supply without any written agreement and for that purpose, the amount of monthly water units included in the agreement signed in the year 2008 subject to a maximum of 1,325, was charged without any revision until the year 2020.
- That it will be corrected in the coming years.
- The society should be provided with water from the company's water body through a written agreement.

3. Other Audit Observations

Audit Observation	Management Comments	Recommendation
(a) Regarding the sale of sugar, a formal tender procedure and the minimum price of the tender board limits was not prepared and approved by incorporating the composition of the company's tender board. And all sugar stocks related to all quantities between 100 to 1,000 metric tons i.e. between Rs. 10,510,000 and Rs. 130,410,000 were sold by the Tender Committee.	Approval of the Ministry has been obtained for the Tender Boards and all sugar wholesale sales will be carried out subject to the limits of the Departmental Tender Committee.	A formal tender procedure should be prepared and the approval of the Treasury should be obtained.
(b) An officer who retired from a public service post was recruited as an Internal Audit Consultant for a period of one year from 15 February 2018 by paying a consultancy allowance of Rs. 80,000, transport allowance of Rs. 50,000 and fuel allowance of Rs. 15,000 per month as per the board decision. The sum of the allowances paid to the Consultant for the year 2020 was Rs.1,740,000 and the bonus and incentive paid for the year 2020 was Rs.155,000. This consultant is conducting consultancy work of the company by extending the annual period up to 14 February 2023.	The services of the Internal Audit Advisor shall be obtained until a permanent officer is appointed for the post of Chief Internal Audit Officer of the Sevanagala Division.	Payment of acting allowances should be in accordance with the instructions contained in Chapter VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
(c) Although an officer who retired on completion of 60 years of age on 05 September 2019 from serving as Acting General Manager (Production) of the company's Sevanagala division has been appointed by the Chief Operating Officer of this company as a Factory Advisor as per the board decision by extension of a period of one year and thereafter for 06 to 06 months and a monthly allowance of Rs.206,500, an official vehicle with fuel for 1540 and 1200 km respectively for official and personal travel, corporate medical insurance facility bonus and incentives had also been paid, the treasury approval was not obtained for the same. The total sum of allowances paid in cash for the year 2020 was Rs.2,436,047 and	The services of the factory consultant will be taken since the service of an experienced officer is necessary and a decision will be taken by the management regarding his service in the future.	Payment of acting allowances should be in accordance with the instructions contained in Chapter VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

the total cost of fuel incurred in the year 2020 was Rs.365,278.

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| (d) | The Sevanagala Division is following a system of providing the entire amount related to the order in advance along with the order during the procurement process and due to lack of attention to ensuring that the goods or services were received properly and not paying attention to the recover, action had not been taken to settle that advance as soon as the relevant goods or services were received. Accordingly, there was an unpaid advance balance of Rs. 12,965,197 given in the financial statements as on 31December 2020, out of that, it was observed that the advance amount of Rs. 8,753,214 given to 28 suppliers was unpaid advances from 01 year to 08 years. | That the action will be taken to settle these advances in the coming year and follow up will be done. | Efforts should be made to immediately look into and settle the unpaid advances and to establish a proper internal control system related to purchases. |
| (e) | Rs.6,232,595, Rs.6,618,127 and Rs.10,751,622 were spent in 2018, 2019 and 2020 respectively for maintenance and payment of employee salaries for maintaining a golf stadium in the Palawatta division. However, it was observed that the expenses incurred had been become inactive due to the absence of any golf games at this stadium. | The amount spent on the maintenance of this golf stadium mainly includes the salaries and allowances of the employees working in that sector. After taking over the government, the maintenance of the golf stadium had to be continued even if it was not used. In the year 2023, the management has transferred the employees of this sector to other productive sectors and cut the relevant expenses. | Plans should be made for the utilization of this stadium. |
| (f) | Although nine vehicles worth Rs. 12,664,305 were sent to the company's garage for repairs in 2013, 2016 and 2019, the repair work had not been completed until the end of the year under review. | One vehicle is currently being repaired out of the 09 vehicles that were sent for repair work and the other vehicles are in the same condition due to difficulty in finding spare parts. | Vehicle repairs should be carried out within a reasonable time and used effectively. |
| (g) | A total of 123 vehicles worth Rs. 34,228,844 belonging to the Palwatta division were lying idle since 2010, 2011, | Although the Transport Division has stated that 123 vehicles belonging to the Company are inactive, they are | Inactive vehicles should be disposed or repaired to the |

- 2014 and 2019 and investigation had not been conducted and repaired or misused. still included in the financial statements as they have not been able to obtain approval from the Board of Directors to remove them from the list of assets of the Company. benefit of the company.
- (h) Due to the fact that the farmers who had taken loans for sugarcane cultivation from the Sevanagala Division moved away from sugarcane cultivation and moved to other unauthorized crops, necessary steps had not been taken to recover the debt balance of Rs. 12,779,215 to be collected from 277 farmers and to redirect the farmers to sugarcane cultivation. Out of these loans, Rs. 4,333,617 for more than 05 years and Rs. 6,807,144 were between 03 and 05 years old. That the loan balances of 277 parts of land without sugarcane cultivation as of 31 December 2020 have been taken into account and out of these lands, sugarcane lands that are being prepared for replanting sugarcane and parts of land directed to crop rotation are included. Even if it takes a few months or a year to those lands will be replanted with sugarcane, after planting sugarcane and supplying sugarcane to the factory in the next year, there is a possibility of recovering the debt. In addition, legal action is being taken in relation to the land where unauthorized plantations and constructions have been carried out. Attention should be paid to the cultivation of the entire land area.
- (i) Due to non-management of working capital by the Sevanagala Division, it was forced to pay interest by obtaining bank overdraft continuously. Overdraft interest in 2020 was Rs.7,503,484 and in 2019 and 2018 it was Rs.7,520,809 and Rs.11,969,695 respectively. 07 fixed deposits of Rs.285,000,000 belonging to the Sevanagala Division were also pledged to gain bank overdraft and bank loans. In cases where sufficient working capital requirements are not met to carry out the day-to-day operations of the company, company has taken steps to obtain bank overdraft facilities. Working capital should be managed properly.
- (j) The balance of Rs.4,958,247 as on 31 December 2020 that has being carried out from the time of Sevanagala division was taken over by the Government in the year 2012 in a current account maintained by the Bank of Ceylon at Embilipitiya Branch is still inactive and action had not been taken until the end of the year under review to invest this amount effectively. Action will be taken to correct it in the future. Action should be taken to invest effectively

- (k) It has been presented the facts to the audit that 14 vehicles out of 106 vehicles owned by the Sevanagala Division were not in the Division and taken away by a private company and the audit also observed that 75 vehicles were not able to run and were decaying in the Sevanagala area. Due to legal issues, these vehicles are not capable of being repaired and driven and that the mechanical engineers have clarified that it will be incurred huge cost for the vehicle spare parts also. Out-of-date stocks should be disposed of in a way that benefits the company.
- (l) The Sevanagala Division imported the Evaporator at a cost of Rs.9,564,866 from India in 2018 and had paid a customs duty of Rs.3,924,394. The company had incurred a loss due to action was not taken to charge the amount of of Rs.4,830,446 from the supplier that paid at the time of re-import in the year 2019 on the basis of non-compliance with the specifications of the SS Tube. The value was also accounted as foreign order advance due to the lack of documents related to the payment of the customs duty. At the time of re-import, Rs. 4,830,446 of paid customs duty will be recovered from the supplier. Customs duty should be recovered from the supplier.
- (m) Based on the decision of the Board of Directors by the Palwatta Division, since 2012, 03 percent of the 12 percent interest income charged on farm loans had been allocated for the welfare of farmers and 01 percent for the welfare of the company and according to the financial statements as on 31 December 2020, the welfare account of farmers was Rs.104,595,757 and the welfare account of company was Rs.34,930,417. However, any welfare work had not been done from 2012 to 2020 from the funds allocated. The company charged 12% interest for farm loans and the governing authority of the institution informed the finance department to set aside 03% of this interest income for the welfare of farmers and 01% for the welfare of the company in 2012. Accordingly, the relevant allocations from the year 2012 to 31 December 2020 have been made in the accounts and that the above allocation was stopped with the approval of director to reduce the interest rate for farm loans to 08% in 2021. And that the total amount allocated has been added to the income of the company as per the approval of the board of directors meeting held on 13 October 2022. A welfare program should be implemented.
- (n) At the end of the year 2020, 469 vehicles owned by the company were not registered in the company's name and the vehicles were These 469 vehicles were purchased before the company was taken over by the government and they were Vehicles owned by the company should be registered in the

registered in the names of the shareholders and the names of private entities that existed before the company was taken over by the government in 2011.

purchased in the name of the then company and in the names of the owners of the company. Although the ownership of these vehicles has been submitted to the Department of Motor Vehicle Registration for transfer to the Ceylon Sugar Company, on some legal grounds, the department has not transferred the ownership.

name of the company.

(o) A total of 3,585 spare parts worth Rs.34,718,160 belonging to the tractors which have been removed from use in the Sevanagala division had been stored for more than 05 years without being used in other vehicles of the company or sold.

That the legal restrictions on further action were affected in respect of 3,585 of unused tractor spare parts.

Action should be taken to use in other vehicles of the company or sell.