

Lanka Sugar Company (Private) Ltd - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 have not been able 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.

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Management Comment	Recommendation
(a) According to paragraph 32 of Sri Lanka Accounting Standard No.01, although the income and expenses of an organization should not be offset except with the permission or requirement of an accounting standard, the income of Rs.2,625,587,207 of the Pelwatta Division in relation to the year under review had been offset with the expenditure and presented in the financial statements.	Chart of accounts have been prepared and sent to the relevant institution to correct this situation while installing the new accounting software. Accordingly, efforts will be made to correct this situation from 2024.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards without any offset of revenue expenditure.
(b) According to paragraph 117 of the Sri Lanka Accounting Standard No.01, the significant accounting policies used in the preparation of financial statements should be disclosed, although Rs.20,141,781 to be charged from two institutions and one project in relation to the Sevanagala division since 2014 had been allocated as impairment, the reasons for such allocations and the relevant accounting policy had not been disclosed in the financial statements.	That it will be disclosed regarding the provisions for impairment in the preparation of the financial statements for the year 2023, and there is uncertainty about the recovery of these three loan balances.	The policy of the provisions for impairment should be disclosed in the financial statements.
(c) As per paragraph 10 of Sri Lanka Accounting Standard No.02, although the cost of the stock should include the purchase cost, conversion cost, other costs incurred to bring the stock to its current status and quality, since the company had valued sugar, molasses, administrator spirits based on the total cost while valuation of the final stock, the accuracy of the closing stock of Rs.2,486,004,294 was not confirmed to audit.	That the total cost has been used to prevent loss to the company in determining the sale price and that the final stock will be valued according to the relevant accounting standards while preparing the accounts reports from 2023.	According to Sri Lanka accounting standards, the stock should be evaluated on the basis of the value less than the cost of the stock and the net realizable value.

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| (d) | According to paragraph 51 of the Sri Lanka Accounting Standard No.16, the useful life of non-current assets is to be reviewed annually, as it was not dealt with accordingly, the property plant and equipment of Rs.386,601,213 of the Sevanagala division and the Rs.1,639,431,417 of the Pelwatta division that is being in use further had been fully depreciated by the end of the date of the year under review. Accordingly, this estimated error had not been revised in terms of Sri Lanka Accounting Standard No.08 and the correct net value had not been presented in the financial statements. | The Government Valuation Department has commenced all fixed asset assessment activities and after the completion of the work, relevant adjustments can be made in the reports of the accounts for the year 2023. | The useful life of non-current assets should be reviewed annually in terms of paragraph 51 of Sri Lanka Accounting Standard No.16 and revised in accordance with Standard No.08 to indicate the correct net value in the financial statements. |
| (e) | The audit did not verify the accuracy of the depreciation expense and provisions for depreciation for the year under review as only the sum of each asset class of the fixed assets of the Distillery Department established in the Pelwatta Division, which had a cost of Rs.760,763,818, was included in the Fixed Asset Register. | That it will be planned to assess and document these assets as separate items during the assessment of assets started in 2022. | Assets should be properly identified and their respective depreciation expenses and provisions for depreciation should be properly accounted. |
| (f) | Since Rs.479,313,990 received for the supply of 53257.11 metric tons of sugarcane to Galoya Plantation Company by the Sevanagala Division in the year under review had credited to the purchase of sugarcane account without being identified as income, income and expense related to the year had been under stated by Rs.479,313,990. | That the Company has coordinated with the Farmer and The Galoya Plantation Company and will make disclosures related to the Ledger Account in future such transactions. | Financial statements should be prepared in accordance with Sri Lanka Accounting Standards without any offset of revenue expenditure. |
| (g) | Since the sugar stock of Rs.664,200,000 held at Pelwatta division as on 31 December of the year under review was not physically verified, the accuracy of that balance was not confirmed by the audit. | That the Company had a stock of about 2214 metric tons of sugar as on 31 December 2022 and it was not in a status which cannot physically calculated and, the stock maintained in the warehouse was confirmed by comparing the sugar stock records maintained in the warehouse and the balances of the accounting system. | All stocks should be physically verified and submitted in financial statements. |
| (h) | Although the depreciation rates for field machinery and equipment, irrigation and various equipment and factory plant and | As the relevant percentages cannot be changed through the existing accounting system, | Specific depreciation rates for assets to be depreciated should be |

equipment along with the Rs. 3,243,969,760 cost of leased assets belonging to the Pelwatta sector are 15, 06 and 05 percent respectively, since Rs. 1,831,760,591 cost of assets related to those assets were depreciated at different rates between 02 percent and 50 percent, the accuracy of the depreciation expense and provisions for depreciation for the year under review was not confirmed.

efforts will be made to update the depreciation policy of the company along with the asset revaluation in the future.

determined and depreciation should be calculated in accordance with the depreciation policy.

(i) Although the audit report of the previous years had also indicated the stock in transits of Sevanagala and Pelwatta divisions of Rs.9,475,416 and Rs.4,904,160 respectively which have been being carried forward in the financial statements for more than 08 years, action had not been taken to settle those balances.

Sevanagala Division-

Agree. This balance will be settled for the year 2023.

Pelwatta Division-

This balance is from prior to 2014 and also an accounting error and this will be removed from the accounts after obtaining the approval of the Board of Directors in the future.

Whether these goods have been received should be investigated and necessary action should be taken.

(j) During the takeover of the Pelwatta Sugar Factory to the government, although Rs.59,863,062 net amount to be paid for the use of 20 tractors from the year 2011 to 31 December 2022 belonging to a company that makes milk-related products apart from it as a separate entity to that company and Rs.19,329,726 receivable for the use of the company's quarters by that company is shown in the financial statements, lease agreements or balance confirmation letters were not submitted to the audit to confirm those balances.

That there is no agreement between the two companies for these 20 tractors and these 20 tractors will be handed over or used through an agreement in after discussion with the relevant institution in 2023.

The receivables and payables from the transactions between the public and private companies included in the financial statements and the divisions of Lanka Sugar Company Limited should be disclosed in detail.

(k) Any information regarding the provision for obsolete stocks of Rs.9,251,437 which had been deducted from other stock balance in the financial statements of the Pelwatta Division from the year 2011 which taken over of Lanka Sugar company Limited to the government to 31 December of the year under review was not submitted to audit.

Fixed and current assets in the financial statements were taken over in the same way when the company was taken over by the Government in 2011 and these balances will be adjusted and removed from the account records.

A Board of Survey should be carried out and the outdated stocks should be identified with certainty.

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| (l) | Although the sugar company did not have the deed of conveyance of the 1.212 hectares of land at the Badalkumbura sugarcane purchase center enjoyed by the Pelwatta division, it was not disclosed in the financial statements. | The Company does not currently have any documents regarding the ownership of the land and after collecting the details from the Surveyor of the Institute and finding the relevant documents, the accounts will be updated. | The land enjoyed by the company should be disclosed in the accounts. |
| (m) | According to the physical stock verification reports of the year under review, although there was a shortage of 172 stock items worth Rs.3,295,168 and an excess of 170 stock items worth Rs.3,485,431 in the warehouses of the Sevanagala division, the necessary adjustments had not been made in the financial statements. There were 1200 types of stock which were physically verified but could not be valued and 206 stock items worth Rs.2,875,285 which could not be used and should be disposed. | That the action is being taken in respect of stock shortages and that the report of the disposing Committee appointed by the Institute on the stocks to be disposed of has now been forwarded to the top management for approval. | Actions should be taken to deal with shortages and excesses while maintaining proper internal control over stocks and to represent the balance contained in the physical verification report in the financial statements. |
| (n) | As per the Physical Stock verification report as of 31 December of the year under review, although the stock balance of the Sevanagala division was Rs.2,149,441,299, the value according to the financial statements was Rs.2,115,224,805 and the final stock was shown to be Rs.34,216,494 less. | Actions will be made to correct this error in the year 2023 through the upcoming Enterprise Resource Management System (ERP System). | The final stock balance should be accurately presented in the financial statements. |
| (o) | Since the electromagnetic separator device of Rs.11,412,646 purchased for the Sevanagala division in 2018 was accounted for as stock items, the current assets had been overstated by Rs.11,412,646 and the non-current assets had understated by the same value as end of the date of year under review. | That it will be corrected in the next year. | Assets should be properly identified and accounted in terms of Sri Lanka Accounting Standards No.01 and 16. |
| (p) | As the stock of crude oil worth Rs.154,831,424 belonging to the Sevanagala Division held on 31 December of the year under review was not physically verified, the accuracy of that balance was not confirmed. | It will be corrected in the next year. | Stocks should be physically verified and presented in financial statements. |
| (q) | According to Sri Lanka Accounting Standard No.02, the stock issuance should be priced as the First In First Out method or Weighted Average method, the stocks issued by the Pelwatta Division were valued based on the price of the last purchased stocks. As a result, the difference of Rs.51,975,591 between the | According to the accounting system used by the company, every item purchased to maintain the stock is valued at the last purchased unit price. The difference in the monthly stock values has been adjusted | Stocks should be measured in accordance with Sri Lanka Accounting Standard No.02 and financial statements should be |

cost and the issue price in the year under review had been adjusted by an assessment adjustment account to the expense of financial statements. It was observed that because of the adjustment of these accounts due to an error in the accounting software, the financial statements do not represent the exact amount of those expense items.

proportionately in the cost reports from the very beginning. That it has been decided to price the stock in the Weighted Average method while installing the new accounting software.

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| (r) | The accuracy of the ledger account balances obtained was not confirmed as the accounting computer software system used in the Pelwatta division was not working as scheduled. | That the initial balances of ledger accounts will not be updated as the annual license of the accounting software system has not been renewed since 2016 and that the accounting records can be transferred to the new system (SAP Business One) by 2023. | An updated software system should be used in the Company. |
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1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Management Comment	Recommendation
(a)	Order 30 of Part 1 of the Orders published by Extraordinary Gazette No.1533/16 dated 25 January 2008 by the Minister in terms of the powers conferred by Section 23 (a) of the National Environment Act No.47 of 1980	The company had not obtained an annual environmental license for sugar production or sugar refining.	That the legal requirements for obtaining the annual environmental license are being processed. Environmental protection systems should be established and environmental licenses should be obtained in accordance with the Act.
(b)	Establishments Code of the Democratic Socialist Republic of Sri Lanka		
(i)	Paragraph 5.1 of Chapter XIX	House rent was not charged for the houses of the officers of the Pelwatta Division and the repair and maintenance expenses of those houses were borne by the company.	That the management has agreed to provide free quarters to the employees of the company since its inception and accordingly the free quarters have been provided to all the employees in the process of taking over to the government. The Rent should be collected from the officer for the houses and action should be taken to recover the fees paid by the company.

		management meeting of the institute discussed the charge of rent for the official houses in the future and it was decided to seek the assistance of the Government Valuation Department regarding the rent to be charged.	
(ii)	Paragraph 5.2 of Chapter XIX	Monthly house rent charges ranging from Rs.20 to Rs.85 which charged from prior to the Sevanagala division were taken over by the government has being charged for more than 11 years.	Agree. That the necessary work to calculate the economic value of the houses required revising the monthly rent is currently underway. House rent should be revised to suit the current market situation.
(iii)	Paragraph 5.8 of Chapter XIX	Although the water bills and electricity bills have to be paid by the officer, the company had adopted a method of bearing the cost by the company through charges are collected from the officer only when the water consumption in Sevanagala Division is used more than 60 units and recovering the remaining electricity bill from the salary after giving a Rs.250 concession monthly for electricity consumption. Accordingly, the company had spent Rs.1,544,798 as electricity charges for the officers' houses in the year under review.	Agree. The Board of Directors has obtained approval to increase the relief given to the employees for water and electricity and is currently working accordingly. Charges for electricity and water should be borne by the officer. Action should be taken to recover the fee paid by the company.
(c)	Public Enterprises Circular No. PED/12 dated 02 June 2003		
	i. Paragraph 8.2.2	Although the consent of the Minister of Finance and the approval of the concerned Minister are required to invest surplus funds in fixed deposits,	That Agree. To invest in fixed deposits, the consent of the Minister of Finance and the approval of

		consent and approval were not obtained for investment of Rs.1,895,239,553 in 30 fixed deposits in Sevanagala Division and Rs.1,817,382,278 invested in 14 Fixed Deposits in Pelwatta Division as on 31 December 2022.		the relevant Minister should be obtained.
	ii. Paragraph 9.2	The company cadre had not been approved by the General Treasury.	That Agree.	Action should be taken in accordance with circulars.
(d)	Public Enterprises Circular No. PED 01/2021 dated 16 November 2021			
	i. Paragraph 5.1	Although the employees were required to pay bonuses and incentives after distributing the surplus or a part of the profit to the consolidated fund/ shareholders in the form of taxes or dividends, the bonuses and incentives had been paid without meeting the requirements of the reference.	That Agree.	Action should be taken in accordance with circulars.
	(ii) Paragraph 5.3	Although 30 percent of the profit after payment of tax should be distributed to the Consolidated Fund/ Shareholders after satisfying with the solvency test set out in the Companies Act No.07 of 2007, the Company did not act in accordance with those provisions.	That Agree.	Action should be taken in accordance with the prescribed provisions.
(e)	Public Enterprises Circular No. PED09/2022 dated 21 December 2022			
	(i) Paragraph 1.1	According to the reference paragraph, although the bonus to be paid for the Sevanagala Division and head office for the year under review was	That Agree.	Action should be taken in accordance with the prescribed provisions.

Rs.28,600,000, the bonus and incentives amounted to Rs.228,703,125 and more than Rs.200,103,125 were paid.

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| (ii) Paragraph 1.2 | According to the reference paragraph, although the incentive to be paid for the year under review for the Pelwatta Division was Rs.88,460,000, the incentive was Rs.508,017,000 and more than Rs.419,557,000 was paid. | PED circulars have not been taken in giving incentives to the employees of the company since 2013, and the relevant payments have been made under the approval of the Board of Directors considering the demands of the employees and trade unions of the company. | Action should be taken in accordance with the prescribed provisions. |
| (f) Paragraph 02 of the Inland Revenue Department Guideline No. SEC/2022/E/04 dated 22 December 2022 | Contrary to the reference paragraph, the Sevanagala Division had paid Rs.158,612,500 as incentive for the year under review without deducting advance personal income tax. | That Agree. | Action should be taken in accordance with the prescribed provisions. |

2. Financial Review

2.1 Financial Results

The financial result for the year under review was a profit of Rs.6,045,575,871 and the corresponding profit for the previous year was Rs.819,729,092. Accordingly, an increase of Rs.5,225,846,779 was observed in the financial results compared to the previous year. This growth is mainly due to the increase in total revenue by Rs.7,479,876,808 while the total expenses of the company increased by Rs.3,385,532,678 compared to the previous year.

3. Other Audit Observations

Audit Observation	Management Comment	Recommendation
(a) A total of 4558 stock items worth Rs.106,651,370 were kept in the store idle for 05 years as the stock items were purchased without properly identifying the requirements.	That Agree.	Action should be taken to dispose or sell.
(b) Pelwatta Division had spent Rs.120,750,000 to purchase a crane machine worth Rs.128,910,000 under lease facility in 2013 and Rs.2,254,850 to provide the required electricity. However, due to non-installation of the machine in the factory as agreed by the	That the crane machine was broken down within a period of 03 months after the work was completed and put into use and although the repairs was done several times after that, that it was not successful,	Officers responsible for this undue cost should be identified and disciplinary action should be taken against them.

- supplier, the machine which cost Rs.123,004,850 remained idle from the date of purchase.
- although an agreement has been reached with the relevant supplier the in the year 2023, since the relevant supplier has failed to fulfill it, that the company has decided to file a lawsuit against the said company.
- (c) The necessary actions had not been taken to recover the loan balances of 229 farmers amounting to Rs.12,171,641 due to the fact that the farmers who took loans for sugarcane cultivation from the Sevanagala Division have turned away from sugarcane cultivation and resorted to other unauthorized crops and to return the farmers to sugarcane cultivation. Out of these loans, Rs.9,212,580 remained unpaid for more than 05 years and Rs.804,080 remained unpaid for between 03 and 05 years.
- Before collecting the loan from the farmers who turned away from sugarcane cultivation, those farmers should be directed back to sugarcane cultivation and the Agriculture Department of the Company is practicing various tactics for that. Generally, it takes between 03-05 years to recover the farm loan. The reason for that is, the sugarcane harvest is harvested once a year and the loan is collected in 03-05 installments.
- The entire land area should be devoted to sugarcane cultivation.
- (d) The 914 materials and equipment worth Rs.3,370,561 and 21 materials and equipment of unrecognizable value related to 19 vehicles removed from use in Sevanagala Division were kept in the warehouse without being sold at auction or disposed of with appropriate action.
- There are legal issues regarding the corporate ownership of these spare parts and action is being taken through a disposing committee regarding the equipment parts.
- Obsolete stocks should be disposed of in a way that benefits the company.
- (e) A total of 1017 spare parts worth Rs.6,890,375 which was removed from use in Pelwatta division and 3602 materials and equipment worth Rs.106,251,731 which were kept in the warehouse without taking in to use for more than 05 years had been kept in the warehouse without taking any action to be sold or disposed.
- Classified by the engineers of the company in relation to the reuse of the stock. Accordingly, after obtaining the details to the disposing Committee of the company, that the Board of Directors will seek approval to dispose of the unused stocks.
- Obsolete stocks should be disposed of in a way that benefits the company.
- (f) The balance due from farm loans of farmers who had taken loans from the Pelwatta Division for sugarcane cultivation was Rs.1,539,296,739 as on 31 December of the year and out of these loans, Rs.508,989,845 remained unpaid for more than five years and Rs.58,269,202 remained unpaid for 03 to 05 years.
- In January 2021, the Board of Directors decided to temporarily suspend the recovery of loans of Rs.464,023,067 taken by the farmers before 31 December 2015 and the remaining amount of farm loans is being recovered.
- Action should be taken to recover the loan due to the company.

- (g) Sevanagala Division had imported an Evaporator worth Rs.9,564,866 from India in the year 2018 and paid customs duty of Rs.3,924,394. Due to not taking action to recover the customs duty of Rs.4,830,446 paid at the time of re-import in the year 2019 from the supplier since non-compliance with the specifications of the relevant equipment (SS Tube), the company suffered a loss of that value and the company did not have the documents related to the payment of the customs duty, that value was also accounted as advance of foreign orders.
- Investigations are underway against the relevant officer.
- Customs duty should be recovered.
- (h) Although the cost of Rs.44,149,728 of 4.607 hectares of 04 lands in Pelwatta division of the company had been stated in the accounts, ownership of the cost of Rs.28,050,728 on 1.686 hectares of land located in Pelwatta and head office was not with the company.
- As the head office land is not mentioned in the Act relating to the acquisition of the institution to the Government, that a lawsuit filed claiming its right is pending. That the necessary documents have been sent to the relevant institutions for the company to obtain the ownership of the land where the Pelwatta Out Farmers Office is located.
- Take possession of the lands enjoyed by the Company and make disclosures in the accounts.