

Transaction Report of the Hingurana Sugar Industries Limited - 2023

The audit of the operational activities of the Hingurana Sugar Industries Limited for the year ended 31 December 2023, 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 on the functionality of the Industries which I consider should be presented to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

In terms of Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity.

In terms of Section 16(2) of the said Act, annual financial statements of every auditee entity shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports of those entities within such period as may be provided by rules.

The Section 38(1)(d) of the said Act requires to ensure the preparation of annual reports and other financial statements within the required periods, and the Chief Accounting Officer shall be responsible to submit the annual reports pertaining to the auditee entity to Parliament.

2. Existence of Assets and Liabilities

Particulars on assets, liabilities, income and expenditure shown in the financial statements last prepared and audited by the Industries as at 31 December 2015, are given below.

Item	Value Rs.
Assets	
Property, Plant and Equipment	42,211,006
Balances due over Extensive Periods	110,794,557
Current assets	147,279,541
Total Assets	300,285,104
Liabilities	
Current Liabilities	83,806,919
Non-current Liabilities	1,661,688,916
Total Liabilities	1,745,495,835

Net Assets/Rights	(1,445,210,731)
Total Liabilities and Equity	300,285,104
Total Income	11,702,140
Total Expenditure	10,193,734
Surplus	1,508,406

2.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
According to Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003 and Section 6.6 of the Public Enterprises Circular, No. 01/2021 dated 16 November 2021, the financial statements and draft annual reports should be presented to the Auditor General within a period of 60 days after the end of the accounting year. However, the financial statements and draft annual reports for a period of 08 years relating to 2016-2023, had not been presented to the Auditor General even up to the date of this report.	As Hingurana Sugar Industries Limited exists only for name's sake at present, the possibility of preparing the financial statements for 08 years from 01 January 2016 to 31 December 2023 will be looked into and action will be taken in due course.	As the liquidation of Industries has not been done thus far, the financial statements should be presented to the Auditor General on time as per the Circular.

2.2 Going Concern

Audit Observation	Comment of the Management	Recommendation
As this institution, privatized in the year 1993 had become unsuccessful, had been taken over by the Government in the year 1997, and no production process was done thereafter since the year 1998, compensation had been paid to all employees in the year 2001 by terminating their service. A private company had been established with the buildings and part of lands belonging to the Industries being given on lease	This institution with minus net assets valued at Rs. 1,445 million functions only for name's sake at present. Action had been taken in terms of Cabinet Decision No. CP/1972/117/058 dated 27 August 2019 to liquidate the Industries. Although this process continued in the backdrop of changes in Ministries, the liquidation process had not been done properly. As such, the	Action should be taken without delay to clear the assets of the Industries and liquidate the entity.

for 30 years. According to the financial statements as at 31 December 2015, going concern of this institution remained doubtful with minus net assets worth Rs. 1,445 million.

Industries had again come under this Ministry due to changes in Ministries. Accordingly, the liquidation will be done in due course by taking that into consideration.

3. Operational Review

3.1 Performance

Audit Observation	Comment of the Management	Recommendation
It was observed in audit that the lands, buildings, vehicles, machinery and other equipment of this Industries that remained non-operational since 1998, with a cost of Rs. 42 million as shown in the balance sheet by the end of 2015, remained idle.	Those lands, buildings, vehicles, machinery and other equipment remaining idle will be disposed of properly in accordance with rules and regulations of the Government at the time of liquidation.	Action should be taken without delay to ensure effective utilization of those Government resources remaining idle over 20 years.

3.2 Management Activities

Audit Observation	Comment of the Management	Recommendation
a) Lands in extent of 277.73 hectares and buildings belonging to the Industries had been given on lease to a private company for a period of 30 years in the year 2007, but action had not been taken to prepare a lease agreement and obtain clearance of the Attorney General in terms of Cabinet Decision No. Corporate Plan 09/0398/329/003 dated 26 March 2009.	The Ministry of Finance is responsible in this regard.	The Line Ministry should take prompt action to prepare a formal lease agreement and seek Attorney General's approval thereon in accordance with the Cabinet Decision.
b) About 20 years ago, lands in extent of 11,232 acres had been disbursed among 4493 farmers each receiving an area of 2.5 acres. However, no lease rents had been recovered, and the effective period of those lease agreement had expired. No measures had been taken formally to recover those lands, recover lease rents	The Ministry of Finance is responsible in this regard.	Suitable measures should be taken by the Line Ministry to prepare lease agreements and recover lease rents for lands provided for the farmers.

by signing lease agreements anew, or hand over the administration thereof to private plantation industries.

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| c) | As no physical verification had been done over a period of 20 years on stocks and other assets of the Industries, existence and accuracy of assets could not be verified in audit. Furthermore, despite being informed to the Auditor General that a verification would be done in the year 2022, the relevant reports of verification have not been furnished to the Audit thus far. | Having appointed a Committee, a physical verification would be done in due course. | Existence and accuracy of assets should be verified through a physical verification and the relevant reports should be presented to the Audit without delay. |
| d) | Unauthorized persons had occupied in 91 of 273 official quarters belonging to the Industries, but legal action had not been taken to evict them. Furthermore, no action had been taken to recover lease rents from other houses. | The Commissioner General of Lands should be responsible in this regard. | Legal action should be taken against the persons illegally occupying the official quarters of the Industries and Lease rents should be recovered by preparing lease agreements under supervision of the Line Ministry. |
| e) | Machinery , equipment, 03 motorcycles and a motor vehicle belonging to the bottle manufactory in the office at Narahenpita, and assets including machinery existing at the premises of the Industries in Hingurana, remained idle since 1997. As such, those assets had become unusable, but no action has been taken to dispose of those items. | Disposing of those assets will be done formally at the time of liquidation in accordance with rules and regulations of the Government. | Action should be taken promptly to dispose of those assets that remained idle over a period of 20 years. |
| f) | Although the Secretary to the Ministry of Industries and Commercial Affairs had informed the former General Manager on 27 February, 2018, to obtain valuation reports from the Department of Government Valuation on all assets of the Industries, those valuation reports had not been submitted for audit. | Action will be taken by obtaining valuation reports of the Government when the Industries is liquidated in due course. | Action should be taken promptly to obtain valuation reports from the Department of Government Valuation on assets of the Industries, thus providing the Audit with necessary information. |

- g) Approval had been given in terms of decisions of the Committee on Public Enterprises taken in February 2017 and Cabinet Decision No. CP/1972/117/058 dated 27 August 2019 that the Industries be liquidated and action be taken without delay to recognize the assets and liabilities in that connection and settle them. However, the Auditor General had been informed that the Cabinet Memorandum had been prepared therefor, but action has not been taken thus far.
- Although action should have been taken to liquidate the Industries in terms of the Cabinet Decision No. CP/1972/117/058 dated 27 August 2019, it could not be done properly due to frequent changes of the Ministries. As such, the process will be enforced again through a note to the Cabinet in due course.
- The process of settling the assets and liabilities, and liquidation of the Institution should be completed promptly.