

Kantale Sugar Industries Limited – 2017

The audit of financial statements of the Kantale Sugar Industries Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the income statement, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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. My observations in respect of performance of the Industries of the year under review 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 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Industries' preparation and fair presentation of the financial statements 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 Industries' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Establishment and Ownership of the Industries

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Kantale Sugar Industries Limited has been established under the Companies Act, No.17 of 1982 and again registered under the Companies Act, No. 07 of 2007. This is a State Company fully owned by the Government.

1.5 Basis for Adverse Opinion

- (a) The Kanthale Sugar Industries Ltd. which was commenced with a view to making contribution to productions such as ethanol, electricity and organic fertilizer as by-products in addition to the production of sugar by using lands owned by the Sugar Industries in an optimum manner, as well as encouraging sugarcane farmers and improving their economic level, had been closed down since the year 1993. As such, no contribution whatsoever is made to the economy of this country. However, funds for expenditure including administrative activities of the Industries, are provided annually by the General Treasury and a sum of Rs.46.473 million had been granted to this Industry during 03 preceding years by the General Treasury.
- (b) In terms of paragraph 32 of Sri Lanka Accounting Standard 01, assets and liabilities should not be offset against each other. However, the balance payable amounting to Rs.1,823,959 included in the debtors balance had been offset against the debtors balance instead of showing separately and the net value of Rs.40,717,134 had been shown in the financial statements as receivable and prepaid payments.
- (c) In terms of paragraph 09 of Sri Lanka Accounting Standard 02, inventories shall be measured at the lower of cost and net realizable value. Even though there was an unused stock in the stores for a long period, the cost of that stock had been indicated in the financial statements as Rs.47,440,818 without considering the net realizable value thereof.
- (d) A sum of Rs.840,774 had been indicated in the Work-in-Progress Account from the year 2009 up to the year under review and it had not been recognized and adjusted to the relevant accounts.
- (e) Even though the balance of the cash book as at 31 December 2017 had been Rs.1,036,282, a sum of Rs.952,818 had been indicated as the cash balance in the financial statements of the year under review, thus understating the cash balance by Rs.83,464.

(f) The evidence indicated against the following items was not made available to Audit.

Item -----	Value -----	Evidence not made available to Audit -----
	Rs.	
Trade and other balances payable	92,066,653	Letters of Confirmation of Balances
Receivable and pre-paid balances	27,611,572	Age analysis
Profit and loss adjustments shown in the statement of changes in equity	580,953,293	Journal Vouchers
Overtime paid for Security Officers	1,484,682	Detailed list

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the financial statements do not give a true and fair view of the financial position of the Kantale Sugar Industries Limited as at 31 December 2017 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on other Legal and Regulatory Requirements

The following matters prescribed by Section 163(2) of the Companies Act, No. 07 of 2007 are given below.

- (a) Basis for opinion, scope and limitations are as follows.
- (b) Adequate information and explanations required for audit had not been received because of the significance of matters described for the adverse opinion and the Industries had not maintained reports on accounts properly, and
- the financial statements of the Industries are in compliance with requirements stipulated in Section 151 of the Companies Act, No. 07 of 2007.

2.2 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.40,717,134 remained unsettled over a period of 25 years from the year 1993, had been indicated in the financial statements as a receivable and prepaid balance.
- (b) The sum of Rs.76,352,246 payable to the Ceylon Electricity Board from the year 1988 to May 2010 had been shown continuously in accounts without taking action to pay them.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with laws, rules, regulations etc. were observed.

Reference to Laws, Rules and Regulations

Non-compliance

Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(a) Financial Regulation 754(a)

Even though the Inventory Book must be balanced at the end of each financial year, the Inventory Book and Registers of Fixed Assets had not been balanced.

(b) Financial Regulation 756

In terms of Regulations, a physical verification for stocks and fixed assets had not been carried out after the year 1997.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Industries during the year under review had been a deficit of Rs.4,769,102 as compared with the corresponding deficit of Rs.2,678,186 for the preceding year, thus indicating a deterioration of Rs.2,090,916 in the financial result of the year under review as compared with the preceding year. The increase in the administrative expenditure by Rs.1,678,109 and the decrease in other operating income by Rs.650,971 in the year under review as compared with the preceding year, had been the main reason for the above deterioration.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) A shareholder agreement had been entered into on 11 August 2016 between the SLI Developers (Pvt) Ltd and MG Sugar Lanka (Pvt) Ltd on behalf of the Government of Sri Lanka relating to the restructuring of the Kanthale Sugar Industries. A Tender Procedure had been commenced for the disposal of machinery belonging to the Industries without carrying out a proper feasibility study in respect of Conditions cited in the shareholder agreement. However, the investor had filed a case against the Government of Sri Lanka due to the dispute occurred between the investor and the Government of Sri Lanka regarding the ownership of those assets. Moreover, the restructuring process had not been carried out even by 18 December 2018 due to failure in taking action to release the premises of the Industries and hand over to the investor.

- (b) Action had not been taken by the end of the year under review to recover the rent of Rs.4,249,000 recoverable for hiring 700 sugar cane binding chains to the Lanka Sugar Company (Private) Limited for 607 days from 09 September 2012 up to 30 April 2014.

4.2 Operating Activities

The Kantale Sugar Industries with an annual production capacity of 16,320 Metric Ton of sugar, 9,000 Metric Ton of Molasses and 3.9 million litres of Rectified Spirits had been vested temporarily with the Government from 01 September 1993 and no production activity whatsoever had been carried out from that date. As such, it was observed that thousands of people who lived in that area had been deprived of their employments in a direct and indirect manner affecting severely their day-to-day life.

4.3 Idle and Underutilized Assets

Machinery which were valued at Rs.125 million by the Valuation Department in the year 1991 had not been used for any production activity and maintained them properly, thus being subjected to an unusable condition by now. As a result, the Valuation Department had given instructions in the year 2017 to sell those assets as scarp-iron at a cost of Rs.60.246 million.

4.4 Staff Administration

Even though 36 comprising 33 as employees for the safety of assets of the Industries and 03 as officers, are in the service, no approved cadre existed. However, at present, functions of the Industries are carried out under supervision of the line Ministry.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The draft Annual Report and financial statements should be furnished within 60 days after close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, financial statements for the year 2017 had been furnished by the Industries only on 02 August 2018.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Industries from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Stocks Control	Failure in taking action to eliminate or write off the outdated stocks by carrying out a stock verification.
(b) Fixed Assets Control	Failure in identifying the assets which should be disposed of by carrying out a physical verification and taking action accordingly.
(c) Human Resources Management	Failure in taking action to make use of the human resource in an optimal and effective manner.