

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Sugarcane Research Institute for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

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

**1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 skepticism 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 Institute'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 Institute'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 Institute 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 Institute, and whether such systems, procedures, books, records and other documents are in effective operation.
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.
- Whether the Institute has performed according to its powers, functions and duties, and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Comments on Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non Compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though the property plant and equipment should be revalued in every three or five years according to paragraph 47 of the Sri Lanka Public Sector Accounting Standards No.07, the land extended 03 acres and 35 perches in Hanthana Uduwela had taken over at a cost of Rs.65,000 on 04 July 1997 had not been revalued and taken into account from the date of acquisition to the year under review.	The company's revaluation policy is to conduct an asset revaluation every 5 years. All the assets of the company were revalued as at 31.03.2015 and the revaluation should be done again in the year 2020.  A letter had been sent to the Government Valuation Department during the year 2019 to revalue the land belonging to the Sugarcane Research Institute at Uduwelawatta, Hanthana and it had not answered yet. Arrangements will be made to get the present value of this land into the books during the revaluation activities of this year.	Action should be taken to revalue in accordance with the standard and the fair value of those assets should be included in the accounts.
(b) Although it had been fully depreciated, regarding the 59 motor vehicles valued at Rs.118 million which are already using by the Institute had not been disclosed in the financial statements in	Action will be taken to rectify from the financial statements for the year 2020.	Action should be taken in accordance with Standard Nos. 03 and 07 regarding motor vehicles which were totally depreciated.

accordance with Sri Lanka Public Sector Accounting Standards No.07. Also, no action had been taken to rectify the previously done estimated error regarding the effective lifetime of these vehicles in accordance with Sri Lanka Public Sector Accounting Standards No. 3.

### 1.5.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Although the motor vehicles depreciation cost for the year under review was Rs.29,718,387, due to it was stated as Rs.16,479,239 in the financial statements, as the depreciation expenditure for the year under review was understated by Rs.13,239,148, the deficit for the year had been stated less by that amount in the financial statements.	Action will be taken to rectify from the financial statements for the year 2020.	Depreciation expenditure should be accurately stated in the financial statements.
(b)	Since the capital expenditure of Rs.8,080,336 had spent on Government grants for the activities such as the tube well-pumping house project in Kantale in 2018, the construction of elephant fence, obtaining electricity for the hot water treatment unit had not been accounted as Government grant and assets, the fixed assets and government grants shown in the financial statements for the year under review were understated by that amount in the financial statements.	A capital fund had been provided through the Ministry to cover the expenditure related to the Kantale and Kilinochchi projects for the years 2015 to 2018 and that money was used for those projects. Accordingly, there was no any assets capitalization as the expenditure of these capital projects had been reported separately to the Ministry. However, the relevant assets will be taken into the books after the revaluation this year (2020).	Action should be taken to amortize by capitalize the government grants and related assets.
(c)	Even though the amount receivable from Lanka Sugar Company (Pelwatta and Sevanagala) is Rs. 7,351,215 according to the financial	The comments had not been furnished	The receivable balances should be identified accurately and necessary

statements of the Institute, according to the balance confirmation received from the company, it was Rs.4,119,535 and a difference of Rs.3,231,680 was observed and the difference was not identified and the required adjustments were not made to the accounts.

adjustments should be made in the accounts.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Inland Revenue Act No. 24 of 2017			
(i) Section 85(i)(b)	Although, if the amount paid by the Institute for the relevant service exceeds Rs.50,000 per month due to service charges and contract payments, a withholding tax of 5 per cent on the total amount paid should be charged and remitted to the Inland Revenue Department, the withholding tax deduction of Rs.214,280 for service charges and contract payments of Rs.4,285,607 paid in 03 instances for 03 individuals had not been remitted to the Inland Revenue Department by the Institute.	The Sugarcane Research Institute had registered to pay the withholding tax on 29 July 2019. It was informed that withholding tax should be levied when supply any goods on a contract basis through pricing or tendering or payment of a service charge as per Sub-section 85 (1) 3(iv) of the Inland Revenue Act No. 24 of 2017.  No withholding tax had been levied as no contract has been entered into for the supply of goods by such pricing or tendering.  Also, withholding tax had been credited to the Inland Revenue Department for rent payments, service charges and applicable payments after 29.07.2020.	Withholding tax should be levied in accordance with the Act and remitted to the Inland Revenue Department.
(ii) Section 84(i)(a)(i)	Although a 10 per cent withholding tax on rent payments should be remitted to the Inland	The Institute was registered for withholding tax after 29.07.2020 and After that, the	Withholding tax should be levied in accordance with the Act and remitted to the Inland Revenue

	Revenue Department, the withholding tax levied on all rent amounting to Rs.109,388 on rent payment of Rs.1,093,875 paid in 19 instances for 04 individuals by the Institute had not been paid to the Inland Revenue Department.	withholding tax was levied on all rent payments had been credited to the Inland Revenue Department.	Department.
(b) Public Finance Circular No. 03/2015 dated 14 July 2015.	Although the Ad-hoc Sub-Imprest, should be given on the nearest immediate date before the specific case and should be settled it immediately after the completion of the purpose it is granted, nine advances amounting to Rs.2,870,518 paid for the purchase of goods and services were delayed for settlement from 58 days to 289 days and a delay of 38 days to 206 days had occurred to settle 30 cash advances worth Rs.703,350.	The purchase advances were obtained for payment for various institutions by the procurement division to make payments when procuring goods and services and the settlement of those advances had delayed. Relevant measures had been taken to minimize this time frame, but in some cases, it may take time to settle.	It should be ensured that the advance will be settled as soon as the work for which the advance had been given is completed.
(c) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 103(f)	A sum of Rs.2,341,093 had been spent by the Institute for the repairs without recovering the relevant losses after determining the responsible officials in that regard by investigating the accident of Rs.6,109,692 caused to the cab No.SG-PF-3067.	Steps are being taken to conduct a formal investigation regarding the accident of cab No. SG-PF 3067 as per the recommendations of the Audit and Management Committee and recover damages from the relevant officers.	The responsible officials should be identified in accordance with the Financial Regulations and action should be taken to recover the relevant loss.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a deficit of Rs.41,630,865 and the corresponding deficit in the preceding year amounted to Rs.74,852,362. Therefore, an improvement amounting to Rs.33,221,497 of the financial result was observed. Decreased in operating expenses had mainly resulted for this improvement.

### **2.2 Ratio Analysis**

Compared to the previous year, the current ratio of the year under review had decreased from 1:15 to 1:10 and the quick ratio had decreased 1:13 to 1: 8. This decrease was due to a decline in short term investments.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although more than 3 years had elapsed since the payment of Rs.1,500,000 to a private company on 21 February 2017 to install the purchased computer software package for the stores, accounts division, procurement division and administration division of the Institute, it was observed that problems had arisen in performing the functions expected from those software packages.	The computer software purchased in 2017 is currently being used by all divisions of the Institution (Accounts, Procurement, stores and Administration) and the financial statements for the year 2019 were also made through the software. Actions were taken to rectify about 99 per cent of the deficiencies in the accounting package with the intervention of our Institution and Emet soft (Pvt) Ltd.	Relevant corrections should be made expeditiously from the service provider so that the functions expected from the computer software package can be performed without problems.
(b) Although the treasury approval is to be obtained for the revised medical aid scheme which has been implemented for the employees of the institution since 1984, a sum of Rs.15,239,611 had been spent on reimbursement of medical bills during the year under review without doing as such.	This medical aid scheme which has been in operation for the employees of the Sugarcane Research Institute since its inception was submitted to the Ministry on 17.11.2016 for approval and sent to the Treasury on 25.04.2017 with the recommendation of the Ministry. Until its approval, payment for medical bills will be made according to the existing Medical Scheme.	Action should be taken to obtain the approval of the Treasury for the medical scheme.

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| <p>(c) A sum of Rs. 724,799 receivable from Sevanagala Sugar Company for sugarcane sticks, Cess tax amounting to Rs.1,847,000 receivable from Pelwatta Sugar Company and a sum of Rs.1,000,000 receivable from Kantale Sugar Factory had not recovered for more than 5 years and the retentions of Rs.1,213,307 had not settled for more than two years.</p>  | <p>Although letters had been sent to Sevanagala Sugar Company to recover the balance of Rs.724,799 receivable to sugarcane, the company had not responded.Also, Pelwatta Sugar Company had defaulted on the payment of Cess tax of Rs.1,847,000 claiming that the GB-2210 Defender was repaired and it has been decided to act on the instructions of the Line Ministry.Reminders had been issued for the amount of Rs.1,000,000 given to Kantale Sugar Company.</p>   | <p>Recovery of money from the relevant institutions and settlement of retentions should be expedited.</p>   |
| <p>(d) Although 35 years had passed since the establishment of the Institute, the sugar industry had not been properly established in the country and it had been disclosed by the report of the Central Bank of Sri Lanka that ninety-two percent of domestic sugar demand is imported due to the Sugarcane Research Act No. 75 of 1981 does not delegate powers to the institute to determine the commercial cultivation of sugarcane, conducting development activities related to the local sugar industry, regulation of the local sugar industry and commercial adaptation of introduced sugarcane varieties.</p> | <p>The comments werenot furnished.</p>   | <p>Action should be taken to amend the Act as required to carrying out development activities related to the sugar industry, regulation andincrease sugar production in the country through commercial adaptation.</p>                                  |
| <p>(e) Although the measures such as introduction of sugarcane varieties resistant to diseases, selecting resistant varieties present in the genetic plasma pool and using those varieties for future breeding activities, identification of vector leaf mites and Giving necessary recommendations for the control of that insect,installation of hot water treatment units,educating farmers on diseases and pest control, conducting training programmes, distribution of instruction leaflets, establishment of Primary Nurseries etc. had been</p>   | <p>Although white leaf disease control measures had been followed, it seems that disease control varies from region to region.Repression in the Hingurana, Pelwatta area has slowed and a high disease control level has been maintained in the Sevanagala area.Measures required to control this disease are to use healthy seed sugarcane obtained from nurseries maintained in accordance with the recommended standards and to remove diseased shrubs from commercial crops and to keep the innoculam density in minimum level.However, the sugar factories have</p> | <p>Immediate action should be taken to reduce that density in areas where the density of white leaf disease is high through providing necessary consulting services and increasing the prevalence of sugarcane varieties resistant to this disease.</p> |



taken by the Institute to control the disease, it was observed that the white leaf disease which was identified in 1972 had failed to be eradicated by December 2019 as well.

not been able to maintain adequate nurseries and the use of sugarcane obtained from commercial cultivations as sugarcane seeds have led to a high level of innoculum density in those areas and it has led to the failure of disease control in those areas. Currently, there are no resistant varieties in any country in the world to control the disease and actions are being taken to control this disease by following proper control methods. However, SL 92 5588 and SL 8613 have been identified as two disease-resistant varieties that can currently be used as strategic crops in areas with high innoculum density and arrangements have been made to provide those varieties in the future.

- (f) Although the Sugarcane Research Institute is the only institute established to development of advanced commercial sugarcane varieties in local sugarcane cultivation and conducting research for it, it was observed that it has become an obstacle in fulfilling the purpose and functions of the institute due to vacancies are existing in 3 main posts of Chief Research Officer which contribute to its research activities, 1 post of Chief Technology Transmission Officer, 1 post of Senior Technology Transmission Officer since 20 May 2010 when the recruitment procedure was approved. Further the post of Procurement Officer is vacant for a period of 2 ½ years and the post of Book keeper is also vacant.

Although the recruitment procedure for the posts of Chief Research Officer and Chief Technology Transmission Officer of the Institute had been amended and approved, the vacancies are being existed due to the lack of qualified candidates. As the revised recruitment scheme for junior managers including the post of Procurement Officer has not been approved, an approval to fill the vacancy for the post of Bookkeeper has not been received from the Department of Management Services.

The filling of relevant vacancies in the institute should be expedited.