

**1. Financial Statements**

**1.1 Disclaimer of Opinion**

The audit of the financial statements of the Lanka Sugar Company (Private) Ltd for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 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 paragraph 1.5 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**

My opinion is disclaimed based on the matters described in paragraph 1.5 in this report. 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 Auditor’s Responsibilities for the Audit of the Financial Statements**

My responsibility is to conduct an audit of the Company’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

#### **1.5 Audit Observations on Preparation of Financial Statements**

##### **1.5.1 Non-Compliance with Sri Lanka Accounting Standards**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) In accordance with paragraph 32 of Sri Lanka Accounting Standard No.01, although it should not be offset the income and expenses of an entity, except as permitted or required by an accounting standard, the Pelwatte Unit had offset income of Rs.1,851,103,397 with the expenses and stated in the financial statements for the year under review.	It is stated that the relevant cost categories have been accounted for as Recovery due to the difficulty of directly identifying them with the relevant expenses and that the action will be taken to rectify this situation in 2025.	Financial statements should be prepared without offsetting income and expenses in accordance with Sri Lanka Accounting Standards.
(b) In accordance with paragraph 117 of Sri Lanka Accounting Standards No.01, significant accounting policies used in the preparation of financial statements should be disclosed. Although Rs.7,473,696 due from a private company from the year 2016 in relation to the Sevanagala Unit, Rs.6,002,360 due from the Kantale Sugar Company from 2014 and Rs.6,665,725 due from the SSP Badulla project were provisioned as doubtful debts, the reasons for those provisions and the relevant accounting policy had not been disclosed in the financial statements.	That a 100 percent provision has been made for the Rs.6,002,360 of Kantale Sugar Company and the Rs.6,002,360 of SSP Badulla project, and that the actions will be taken to disclose the accounting policy in the financial statements.	The reasons for the provision for impairment and the policy for impairment should be disclosed in the financial statements.
(c) Although the useful lifetime of non-current assets should be reviewed annually in accordance with paragraph 51	That the fixed assets had not been revalued at the time of the institution's takeover by the	The useful life time of non-current assets should be reviewed

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|     | <p>of Sri Lanka Accounting Standards No.16, the Company had not done accordingly. Accordingly, although the property, plant and equipment the which is still in use amounted to Rs.900,693,578 of the Sevanagala Unit and amounted to Rs.2,526,842,810 of the Pelwatte Unit had been fully depreciated by the end of the year under review, that estimated error had not been revised in accordance with Sri Lanka Accounting Standard No.08 and the correct carrying value had not been disclosed in the financial statements.</p>                                   | <p>government and that the assets will be revalued in the future and adjustments will be made in the accounting records.</p> <p>annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No.16 and the correct carrying value should be reflected in the financial statements after revised in accordance with Standard No.08.</p> |
| (d) | <p>Although the first in first out method or the weighted average cost method should be followed when pricing stock issues according to Sri Lanka Accounting Standards No.02, Pelwatte Unit had used faulty accounting software and priced the stock issues based on the price of the last purchased stock. As a result, without identifying the unrecognized difference of Rs.118,464,545 that had arisen between the cost and issue price during the year under review, adjustment had been to the financial statements through a valuation adjustment account.</p> | <p>It is planned to install new accounting software in 2025, and it has been agreed to use the weighted average cost method for stock valuation.</p> <p>Stock valuation should be carried out using a formal procedure and financial statements should be prepared in accordance with Sri Lanka Accounting Standards No. 02.</p>                     |
| (e) | <p>Although, according to Sri Lanka Accounting Standard No. 41, the sugarcane plantation existing as at the end of the year under review should be valued under biological assets and presented in the financial statements, the biological assets belonging to the Sevanagala Unit had not been identified and accounted in the company's financial statements.</p>                                                                                                                                                                                                  | <p>Sugarcane cultivation will be presented as biological value in financial statements in 2025.</p> <p>Action should be taken to accurately identify and account assets in accordance with Sri Lanka Accounting Standards No. 41 using a formal method.</p>                                                                                          |

## 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Fixed assets costing Rs.760,763,818 belonging to the Distillery Department established in the Pelwatte Unit were not separately identified and recorded in a fixed asset register as a collection of asset classes and since depreciation was calculated based on those values, the accuracy of the provisions for depreciation of Rs.294,630,897 for the year under review as stated in the financial statements was not confirmed by the audit.	That there was no accurate fixed asset register at the time of the institution's takeover and the assets will be assessed separately and the accounting records will be corrected in the future.	A program should be implemented to accurately identify assets, accurately account for related depreciation expense and provisions for depreciation, and present accurate financial statements.
(b) Due to the lack of a formal database containing detailed information, the interest charged on farmer loans was calculated without following the accrual basis for the year under review and since total of Rs.87,152,550 had been identified as Rs.19,544,668 by the Sevanagala Unit and Rs.67,607,882 by the Pelwatte Unit as farmer loan interest income under the cash basis, the accuracy of the farmer loan interest income was not verified.	Interest has been calculated on a cash basis due to practical circumstances and interest on farmer loans will be calculated on an accrual basis in the coming year.	A formal system should be implemented to recognize and account interest income on an accrual basis in accordance with the recommendations of the relevant formal framework for preparing financial statements.
(c) Although a shortage of 102 stock items worth Rs.1,571,044 and a surplus of 90 stock items worth Rs.2,413,192 belonging to the Sevanagala Unit were identified according to the physical stock verification reports of the year under review, the necessary adjustments had not been made in the financial statements for that. There were 921 items whose physically verified but value could not be calculated and 342 inventory items worth Rs.2,592,026 which were unusable and to be disposed of were also in the warehouse. The necessary adjustments had not been made in the financial statements regarding those inventories.	Action will be taken to report accurately from 2025.	Proper internal control over stocks should be maintained, deficiencies and surpluses should be addressed, and the balance included in the physical verification report should be reflected in the financial statements.

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| (d) | Although a net amount of Rs.70,909,647 payable for the usage 20 tractors since 2011 to 31 December 2024 belonging to the institution engaged in dairy-related production as a separate institution, which was separated during government acquisition of Pelwatte Sugar Industries and Rs.19,738,297 receivable for the use of official residences belongs to the company by that institution was stated in the financial statements, lease agreements or balance confirmation letters to confirm those balances were not submitted for audit. | That the agreements with the Pelwatte Dairy Company have been cancelled and actions have been taken to take over the relevant houses, that discussions are underway to return the 20 tractors belonging to them, and that the transactions will be settled and contracts will be concluded only on a cash basis in the future. | Records should be maintained to confirm the receivable and payable balances included in the financial statements, and balance confirmations should be called and submitted to the audit.       |
| (e) | The value of 02 molasses tanks belonging to the Sevanagala Unit, which were started the work in the previous year and completed and put into use in the year under review was identified at a cost of Rs.185,179,302 were accounted as buildings work in progress (WIP) at Rs.116,662,960 without showing under the plant and machinery accounts, and as Rs.37,035,860 under other receivables and the amount of Rs.31,480,482 further to be paid had not been accounted.                                                                      | Action will be taken to correct the accounts in 2025.                                                                                                                                                                                                                                                                          | Asset values should be accurately identified and accounted for under the correct category in accordance with Sri Lanka Accounting Standards No.16.                                             |
| (f) | Although Rs.15,571,336 was spent on the renovation of the Human Resources Management Division building of the Pelwatte Unit in the previous year and the year under review, Since the labor cost of Rs.5,558,000 incurred for the construction work was accounted as an expense when capitalizing that value in the year under review, the balance of the building account and retained earnings were understated by Rs.5,558,000 each.                                                                                                        | Capital construction labor costs will also be absorbed and accounted for the actual cost in the future.                                                                                                                                                                                                                        | The correct cost of assets should be identified and adjusted in the accounts taking into account the matters pointed out by the audit in accordance with Sri Lanka Accounting Standards No.16. |
| (g) | Since Rs.181,426,462 and Rs.164,590,391 received for supply of 15,310.25 metric tons and 11,623.93 metric tons of sugarcane pulp for the Pelwatte Unit the Ethimale Plantation (Pvt) Ltd respectively during the year under review by the Sevanagala Unit were credited to the sugarcane purchase                                                                                                                                                                                                                                              | Agree with the audit observation and will be taken action to report accurately since 2025.                                                                                                                                                                                                                                     | As per the recommendations of the relevant format framework for preparing financial statements, income and expenses should be presented without                                                |

- account without being reported as income, the income and expenses for the year had been understated by Rs.346,016,853 each.
- (h) In calculating the cost of sales of the Sevanagala Unit during the year under review, since the closing stock of sugar and controlled spirits was incorrectly overstated by Rs.702,928,831 on the net realizable value, the cost of sales had been overstated by that amount.
- (i) Since the interest income of Rs.19,544,668 collected by Sevanagala Unit for farmer loans and Rs.4,309,445 collected for employee loans during the year under review were shown as fixed deposit interest income in the company's financial statements, the fixed deposit interest income for the year was overstated by Rs.23,854,113, while the interest income from farmer loans and employee loans was understated by Rs.19,544,668 and Rs.4,309,445 respectively.
- (j) Due to the fact that the 32,136 liters of fuel oil worth Rs.7,487,688, which was issued from the company's Pelwatte Unit to the Sevanagala Unit on 05 occasions in April and July 2022 and used for production purposes was debited to the inter-company account in 2023 without being accounted for as an expense in the year 2022, and it was taken action to correct it also in the year under review, other receivables and retained earnings had been overstated by Rs.7,487,688 each as at the end of the year under review.
- Agree with the observation and will work to report accurately from 2025.
- This will be corrected in 2025.
- That the Pelwatte Unit was credited to the inter-company account as it should have been due from Sevanagala and that an investigation is underway in this regard at the Sevanagala Unit and that corrective action will be taken once the investigation is completed.
- offsetting each other, and an internal process should be introduced to ensure this.
- Stock valuation should be carried out in accordance with Sri Lanka Accounting Standards No.02 and financial statements should be prepared, and the relevant accounting deficiencies should be adjusted in the financial statements.
- Financial statements should be prepared with income identified under the correct classification, and a program should be introduced to confirm that.
- The company's transactions should be accurately accounted and financial statements should be prepared, and action should be taken to correct accounting errors.

### 1.5.3 Non-reconciled Control Accounts and Records

Audit Observation	Comments of the Management	Recommendation
(a) Although the physical stock verification reports of the Sevanagala Unit showed that the stock balance as of 31 December of the year under review was Rs.3,439,882,847, since it was shown as Rs.3,647,457,934 in the financial statements, the closing stock had been overstated by Rs.207,575,087.	These discrepancies are due to errors in the accounting software and these deficiencies will be corrected when the ERP system is installed.	Proper internal control over stocks should be maintained and, deficiencies and surpluses should be addressed, and the balance included in the physical verification report should be reflected in the financial statements.

### 1.5.4 Going Concern of the Company

In preparing the financial statements in accordance with Sri Lanka Accounting Standard No.01, it is the responsibility of management to assess the going concern of the company and the company's transactions up to 31 March 2025 were audited in accordance with Sri Lanka Auditing Standards Nos. 570, 560 and Sri Lanka Accounting Standards No.10 to assess the appropriateness of preparing the financial statements on the going concern basis for the year under review. Based on the findings of the audit, the following issues were identified that could affect the going concern of the company.

Audit Observation	Comments of the Management	Recommendation
(a) The value of the loan installments and the related loan interest as of the end of the year under review in relation to the loan facilities of Rs.400,000,000 obtained by the Sevanagala Unit during the year under review was Rs.78,968,618 and that value had grown to Rs.193,541,014 by 31 March 2025.	This loan was obtained for the working capital needs of the Sevanagala Unit, and due to the significant decrease in the sales of sugar and ethanol, the main income of the institution in this year, it was not possible to pay the installments or interest on this loan.	The company's future activities should be budgeted and working capital management decisions should be made accordingly, and formal actions should be taken to ensure continuity.
(b) The total value of the loan installments and the related loan interest that were in arrears as of the end of the year under review in relation to the loan facilities of Rs.1,500,000,000 obtained by the Pelwatte Unit on two occasions was	Due to the current difficulties in the market for selling products, it has been unable to pay the installments for the above loan, and action have been taken to restructure Rs.600 million of	- do -

- Rs.245,348,863 and that value had grown to Rs.432,867,254 by 31 March 2025. the above loan for a period of the next 05 months.
- (c) Although the correct net cash inflow generated from operations of the Sevanagala Unit during the previous year was Rs.523,251,980, as the figure was a net cash outflow of Rs.1,574,065,963 in the year under review, the net cash flow generated from operating activities had declined by 400 percent. The net cash flow generated from the operations of the Sevanagala and Pelwatte Unit has declined and this is due to the fact that the company's products have not been sold and the closing stocks have increased. - do -
- (d) Although the correct net cash outflow generated from operations of the Pelwatte Unit in the previous year was Rs.41,974,681, as the same figure was a net cash outflow of Rs.1,370,527,927 in the year under review. the net cash flow generated from operating activities had declined by 3165 percent. The net cash flow generated from the operations of the Sevanagala and Pelwatte Unit has declined and this is due to the fact that the company's products have not been sold and the closing stocks have increased. - do -
- (e) Value Added Tax of Rs.237,716,800 from July of the year under review by the Sevanagala Unit and Value Added Tax of Rs.633,173,292 from April of the year under review by the Pelwatte Unit as of 31 December of the year under review had not been remitted to the Inland Revenue Department. those values had grown to Rs.327,011,636 and Rs.771,664,822 respectively as of 31 March 2025. That the VAT payable by the Sevanagala and Pelwatte Unit amounts to Rs.237,716,800 and Rs.771,664,822 respectively, this is due to the lack of sufficient funds to maintain the operations of the institution through the sale of sugar and ethanol, and the Line Ministry and the Treasury have been informed in this regard and action will be taken to pay the outstanding tax amount as soon as the financial situation recovers. Statutory payments should be remitted up-to-date, and formal action should be taken to maintain the continuity of the institution.
- (f) As at 31 December of the year under review, Rs.103,888,252 of social security contribution tax collected on sales since April of the year under review by the Pelwatte Unit and Rs.15,491,376 of the Social Security Contribution tax collected on sales since October of the year under review by the Sevanagala Unit had not been remitted to the Inland Revenue Department and those amounts had increased to Rs.130,449,605 and The Social Security Contribution Tax payable by the Pelwatte Unit is Rs.103,888,252 as of 31 March 2025 and this is due to insufficient funding. - do -

Rs.28,076,460 respectively as of 31 March 2025.

- (g) As at 31 December of the year under review, the Sevanagala Unit had not remitted income tax of Rs.762,324,096 relating to the years 2012, 2017, 2020, 2021, 2022 and 2023 and, the Pelwatte Unit had not remitted income tax of Rs.166,182,242 relating to the year 2023 to the Inland Revenue Department and self-assessment tax returns for the first quarter of 2025 and information on the total tax liability as of 31 March 2025 were not submitted for audit. Sevanagala has a tax arrears balance of Rs.762,324,096 and Pelawatte has a tax arrears balance of Rs.166,182,242 from 2017 to 2023, and a self-assessment has been carried out for the first quarter of 2025. - do -
- (h) As at 31 December of the year under review, the Pelwatte Unit had not paid Employees' Provident Fund (EPF) of Rs.223,269,083 since July of the year under review and that liability was Rs.183,048,778 as at 31 March 2025. That an amount of Rs.183,041,778 in Employees' Provident Fund payable from October 2024 is in the accounts as of the end of March 2025 and, that the settlement of this has been delayed due to the financial difficulties faced by the institution. - do -
- (i) The Sevanagala unit had produced 13,704.10 metric tons of sugar in the previous year and that quantity had declined by 13 percent to 11,920 metric tons in the year under review. Furthermore, the cost of production of one metric ton of sugar increased from Rs.262,690 to Rs.321,910 by 23 percent and it had mainly due to an increase in salary costs of Rs.270,202,625 (18 percent) and an increase in finance costs of Rs.95,076,907 (1255 percent) compared to the previous year. The production cost of the Sevanagala Unit has increased in 2024 compared to 2023, and the main reason is that the rainfall and sugar absorption rate has decreased this year compared to previous years, and that due to the decrease in income due to the decrease in sugar and ethanol sales this year, it had to obtain bank overdraft facilities and loans for working capital requirements. Costing reports should be prepared through the institution's management accounting system and cost control should be implemented accordingly.
- (j) Although the Sevanagala Unit had used 232,068.89 metric tons of sugarcane for the production process in the previous year, that amount had declined by 4.8 percent to 220,909.31 metric tons in the year under review. The 11,926.81 metric tons of sugarcane were not used in the production process in last year due to That there has been a decrease in the sugarcane used for the production process this year due to reasons such as periodic worker agitation at the Sevanagala Unit and the receipt of substandard sugarcane, sugarcane was diverted to the A formal program should be developed and implemented to achieve optimal capacity levels in the factory's production activities.

capacity issues and were directed to the Pelwatte and Ethimale sugar factories and, that amount had increased by 127 percent to 27,022.04 metric tons in the year under review.

Pelwatte and Ethimale factories due to insufficient capacity, and as the sugarcane can become stale if the drying process is delayed when the institution received more sugarcane than its capacity at certain times of the year, they have been directed to the Pelwatte and Ethimale factories.

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| (k) | As detailed in Section 2.3 of this report, the company's key financial ratios of gross profit ratio, net profit ratio, current ratio, quick asset ratio and inventory turnover ratio and inventory holding period had continuously deteriorated from 2021 to the year under review. | Factors such as the increase in the institute's production costs, the rapid decline in the selling prices of sugar and ethanol, and the fact that the institute's products have been stored in warehouses for a long time without being sold have contributed to this. | Necessary actions should be taken to restore the deterioration of key financial ratios and ensure the going concern of the institution. |
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### 1.5.5 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Since the accuracy of the balance of sugar stock of Rs.4,488,950,237 belonging to the Pelwatte Unit as presented in the financial statements as at 31 December of the year under review was not verified physically, the audit could not confirm the accuracy of that balance.	That due to the rush during storage and issuance, the number of sugar bags is not clearly displayed for calculation and that appropriate action will be taken to rectify this situation in the future.	Stocks should be physically verified and presented in the financial statements.
(b) Although inventories should be valued based on the lower of cost and net realizable value according to Sri Lanka Accounting Standard No.2, the accuracy of the basis for valuing the molasses stock, which was stated in the financial statements as Rs.2,043,284,490 was not verified as the basis was not submitted for the audit.	That no methodology has been developed to calculate the cost of finished molasses stocks until now and, that market prices have been used to value the closing stocks at Rs.90 per kg of molasses.	A formal methodology should be developed to calculate inventory costs and inventory should be valued in accordance with Sri Lanka Accounting Standards No. 02 and financial statements should be prepared.

## 1.6 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

	Laws, Rules and Regulations etc.	Non-Compliance	Comments of the Management	Recommendation
(a)	Section 19A of the Motor Traffic Act No. 08 of 2009	A Land Rover belonging to the Pelwatte Unit had been converted into a Defender vehicle in violation of the relevant legal regulations and the company was found guilty in court for this illegal change and was fined Rs.50,000.	This vehicle, which was in an un-drivable condition, had been renovated as a Defender vehicle in 2013 at a cost of Rs.5,500,000 following a decision taken by the management at the time, this issue arose when this Defender vehicle was involved in an accident in 2016 and was presented to the court, where it was reported that the vehicle was released after paying a fine of Rs.50,000 and, that an investigation is being conducted by the Bribery or Corruption Investigation Division in this regard.	Disciplinary action should be taken against the responsible officers and action should be taken to recover the losses caused to the company.
(b)	Order 30 of Part 1 of the Orders in Extraordinary Gazette No.1533/16 dated 25 January 2008 published by the Minister as per the powers conferred by Section 23 (a) of the National Environment Act, No.47 of 1980	The annual environmental permit for factories producing or refining sugar had not been obtained.	The legal requirements to obtain the annual environmental permit for the Sevanagala Unit are currently being completed, and the bio-fertilizer production project initiated for this purpose has currently stalled. In addition, renovation work is currently underway at our water treatment plant, which purifies water wasted during production and releases it back into the environment.	Environmental protection procedures should be established and environmental permits should be obtained in accordance with the Act, and action should be taken against parties who have not taken actions to obtain permits in accordance with the Act.
(c)	Financial Regulation No. 371 (02) of the Financial Regulations of the Democratic	An advance of Rs.5,310,000 was given to the Civil Maintenance Manager for a construction project with the	Disciplinary action is being taken against the relevant parties.	Disciplinary action should be taken against the responsible officers and action should be taken to

Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 August 2021.

approval of the Chief Executive Officer, irrespective of the provisions of the referenced regulation. Although 17 months had passed since the completion of the relevant work by the end of the year under review, the advance had not been paid. Furthermore, the above amount had been spent at the discretion of the company's Civil Maintenance Manager without following the procurement procedure when purchasing construction materials for this purpose. Accordingly, Rs.5,310,000 had been spent on renovation works on a building that the company did not own, with the approval of the company's CEO.

recover the losses caused to the company.

(d) Management Services Circular No.02/2016 dated 25 April 2016 and Management Services Circular No.03/2018 dated 18 July 2018

Without obtaining the consent of the Department of Management Services, without obtaining the approval of the Salaries and Staff Commission and without complying with the provisions of the referred circulars, the salaries of employees of the Sevanagala Unit had been increased based solely on the recommendations of an unauthorized

Disciplinary action is being taken against the relevant parties.

Disciplinary action should be taken against the responsible officers and losses caused to the company should be recovered.

committee. An excess of Rs.733,413,947 had been paid as increased salaries and allowances up to 30 June 2025.

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| (e) | Value Added Tax (Amendment) Act, No.32 of 2023 dated 13 December 2023 | Value Added Tax (VAT) charged from the purchaser on the sale of spirits, sugar, molasses and other items in the Sevanagala and Pelwatte Units in the months of January, February and March of the year under review amounted to Rs.106,817,348 and Rs.159,480,580 respectively had not been charged. | The buyers refused to pay VAT back to our company in relation to the above stock, which had been purchased at very high prices, and based on the decision of the top management, that the sugar was issued using tax-free invoices in a way that did not allow buyers to offset VAT.                           | Action should be taken to compensate for the loss of Rs.266,297,928 caused to the government and formal action should be taken against the responsible parties. |
| (f) | Public Enterprise Circular No.01/2015 dated 14 January 2022.          | Rs.8,318,460 by the Sevanagala Unit and Rs.9,378,332 by the Pelwatte Unit had been paid for the over provided to 20 officers in the Pelwatte and Sevanagala Unit, in violation of the provisions of the Circular.                                                                                    | Sugarcane cultivation is carried out in an area of approximately 13,500 hectares and since the fuel supply was insufficient for the officers who carry out supervisory activities for it according to the circular 01/2015, the company has been issuing fuel through an internal circular from the beginning. | The company should recover the losses incurred due to overpayments.                                                                                             |

## 2. Financial Review

### 2.1 Financial Result

The financial result for the year under review was a loss of Rs.2,061,781,565 while the corresponding profit for the previous year was Rs.2,332,281,726. Accordingly, a decline of Rs.4,394,063,291 was observed in the financial result compared to the previous year. This decline is mainly due to a decrease in total income of Rs.5,582,041,974 while the company's total expenses decreased by Rs.1,187,978,684 compared to the previous year.

### 2.2 Trend analysis of major Income and Expenditure Items

Sales revenue had devalued by 33 percent, while cost of sales had also decreased by 6 percent when compared to the previous year. Furthermore, other income had decreased by

33 percent compared to the previous year. Compared to the previous year, financial expenses had increased by 208 percent, while financial income had decreased by 41 percent.

### 2.3 Ratio Analysis

- (a) Compared to the previous year, the gross profit ratio had deteriorated significantly in the year under review from 35 percent to 9 percent, and the net profit ratio had deteriorated significantly from 14 percent to a negative 19 percent.
- (b) The current asset ratio had deteriorated significantly from 2.3 to 1.82 in the year under review compared to the previous year.
- (c) The inventory turnover ratio had deteriorated significantly from 3 times to 0.85 times compared to the previous year, and the inventory holding period had deteriorated significantly from 144 days to 445 days.

### 3. Other Audit Observations

Audit Observation	Comments of the Management	Recommendation
(a) As warehouse items had been purchased without properly identifying the requirements, 3369 inventory items worth Rs.73,773,156 had been stored in the warehouse for over 05 years in the Sevanagala Unit.	Most of these stock items were donations made by the company at the beginning of the Sevanagala Institute, Although the parts have been purchased to repair the tractors and vehicles that were in the institution after it was taken over by the government, that the tractors and vehicles have had to be parked due to legal issues and these stocks will be disposed of after proper inspection.	A formal inspection should be carried out and unnecessary stocks should be disposed of in a proper manner.
(b) The Pelwatte Unit had spent Rs.120,750,000 to purchase a crane machine worth Rs.128,910,000 under lease facilities in the year 2013 and Rs.2,254,850 to provide the necessary electricity. However, due to the failure of the supplier to install the machine in the factory as agreed, this machine, which had cost a total of Rs.123,004,850, remained unused and unusable since the date of purchase.	Although this crane machine was under contract to be renovated at the supplier's expense and handed over to the institution after studying its performance by implementing the project for three months during the Maha season of 2024, that the relevant supplier failed to fulfill it and the institution has taken actions to file a lawsuit against him.	The parties responsible for this uneconomic expenditure should be identified and disciplinary action and necessary legal action should be taken against them.

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| (c) | <p>Although the company's head office had been paid Rs.4,445,682 as a permit fee to the Department of Import and Export Control for the import of 5,000 metric tons of molasses in 2022, as the company had not imported molasses, the expenditure incurred for that had been idle.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>Although the actions were taken to open letters of credit under the approval of the Ministry Procurement Committee, since the imports were not made due to the dollar shortage in the country at that time, it was not possible to recover the license fee of Rs.4,445,682 paid.</p> | <p>A formal investigation should be conducted and action should be taken to recover the losses incurred by the company from the responsible parties and disciplinary action should be taken.</p> |
| (d) | <p>Although the standardization criteria for brown sugar of the Sri Lanka Standards Institution state that the color of brown sugar should be less than 1500 ICUMSA Units, more than 30 percent of the total sample of sugar produced at the Sevanagala Unit during the year under review tested for laboratory testing had ICUMSA Units ranging from 1501 to 5354.</p> <p>Accordingly, by providing wholesalers with brown sugar that was higher than the prescribed standard had created an opportunity for trade misconduct to mix cheaper white sugar with the company's sugar. Furthermore, according to the sugar samples tested, the polarization value and moisture content of the sugar were not in accordance with the standards of the Sri Lanka Standards Institution.</p> | <p>No Comments were made.</p>                                                                                                                                                                                                                                                           | <p>A formal program should be developed and implemented to ensure the production of sugar of the required standard and to ensure consumer protection by preventing trade irregularities.</p>     |
| (e) | <p>The polarization value of 540 sugar samples and the moisture content of 520 samples sent for laboratory testing during the period from July to November 2024 were not tested. Furthermore, The laboratory division did not maintain a sample register and code numbers were not used to identify and record the sugar samples taken. Also, although the standardization criteria of the Sri Lanka Standards Institution had been used when testing the sugar samples, registration with the Sri Lanka Standards Institution had not been obtained.</p>                                                                                                                                                                                                                              | <p>No Comments were made.</p>                                                                                                                                                                                                                                                           | <p>A sample register should be maintained for the samples tested and registration with the Sri Lanka Standards Institution should be obtained for the standardization criteria used.</p>         |

- (f) Rainwater had leaked into the warehouse into 31,000 kilograms of sugar with a production cost of Rs.9,979,210, with an expiry date of 23 July 2025 and no actions had been taken to check the condition of that sugar stock and make it saleable. No Comments were made. Action should be taken against those parties who have not taken actions to maintain the stocks safely, and actions should be taken to check the condition of the sugar stock and make it saleable or dispose of it in a proper manner.
- (g) Defender vehicle number 32 - 1348 belonging to the Pelwatte Unit was involved in an accident in 2016 and was not physically in the possession of the company for many years and this vehicle was still stored in a garage in the Piliyandala area by 31 January 2025. Furthermore, there were no documents confirming that this vehicle was formally handed over to the relevant garage for repair, and no investigations had been carried out regarding the accident as required by Financial Regulations 103 and 104. Although full insurance coverage had been obtained for this vehicle, since the application form required to obtain insurance compensation had not been submitted on time, It was not possible to obtain insurance compensation for the damage to the vehicle and the loss of Rs.56,456 incurred by a third party due to the accident. That the then senior management had directed this vehicle to a garage in the Piliyandala area in 2020. That there is no tender or other approval for it, Among the matters required to be done under Financial Regulations 103 and 104, although the institution has notified the authorities and reported the accident to the police, no other investigations have been conducted and, an application for insurance compensation was submitted later and although the insurance company agreed to pay Rs.800,000, compensation has not been received to date. The parties responsible for the accident should be identified, actions should be taken to recover the losses caused to the company, and disciplinary action should be taken.
- (h) Action had not been taken to recover the loan balance of Rs.11,111,893, which was due from 246 farmers who had taken loans for sugarcane cultivation from the Sevanagala Unit due to withdrawn from sugarcane cultivation. Out of these loan balances, Rs.5,921,176 had been outstanding for more than 05 years and Rs.542,637 had been outstanding for between 03 and 05 years. Currently, actions have been taken to provide materials and service facilities to sugarcane farmers with loan agreements and guarantors, and accordingly, to recover institutional farmer loans to the maximum extent possible by recovering them from the guarantors. Attention should be paid to cultivating the entire land area and, formal action should be taken against officials who have not taken actions to collect loans in a timely manner,

		and actions should be taken to recover the balance of farmer loans without delay.
(i)	The production cost of sugar and spirits was overestimated as the production cost was calculated based on total costs, including expenses not related to production activities by the Sevanagala Unit.	Actions have been taken to correct this in the 2025 accounts. Production costs should be calculated taking into account only the costs related to the production process, and a formal method should be developed and implemented for this purpose.
(j)	Although the audit reports of previous years had also pointed out regarding the inventory in-transit of Rs. 9,475,416 that has been carried forward in the financial statements of the Sevanagala Unit for over 11 years and the inventory in-transit of Rs.84,061,507 that has been carried forward from 2013 to 31 December 2024 in the Pelwatte Unit, action had not been taken to settle those balances by the end of the year under review.	This balance, which is exist as an opening balance as at 01 January 2013 will be checked and corrected in the coming year. It is necessary to investigate whether these goods have been received and take necessary action to settle the balance.
(k)	According to the stock verification reports of the Sevanagala Unit, there was a shortage of 306 stock items worth Rs.6,777,664 and a surplus of 429 stock items worth Rs.5,192,625 in the previous year, and there was a shortage of 102 stock items worth Rs.1,571,044 and a surplus of 90 stock items worth Rs.2,413,192 during the year under review, necessary actions had not been taken regarding these stock surpluses and shortages.	Necessary actions will be taken regarding stock shortages and surpluses after inquiries are made with the relevant parties. Proper internal control over stocks should be maintained and, deficiencies and surpluses should be addressed, and action should be taken against the responsible parties.
(l)	The bank overdraft balance of the Pelwatte Unit which was Rs.349,429,306 at the beginning of the year under review had increased to Rs.790,638,792 by the end of the year and, Rs.70,139,451 had been paid as	The company's sales have been severely limited and it is facing problems in repaying short-term loans and overdraft facilities. Working capital requirements should be managed in a manner that

interest during the year under review for obtaining bank overdraft facilities.	minimizes financial costs, and an effective program should be developed and implemented to do accordingly.
(m) During the year under review, the Sevanagala Unit had used bank overdraft facilities to pay bonuses and incentives of Rs.204,236,116, employee salaries and wages of Rs.1,280,758,802 and overtime and holiday pay of Rs.236,966,243 and had paid overdraft interest of Rs.95,710,969 for that.	Since there were not sufficient sugar and spirit sales during the year, bank overdraft facilities had to be obtained to meet the "working capital" requirements of all the operations of the institution. Disciplinary action should be taken against those parties who paid incentives and bonuses without considering the company's poor financial condition and the risk to its going concern.
(n) The 15,237.56 tons of sugarcane were transferred to the Pelwatte Unit due to insufficient capacity at the Sevanagala factory during the year under review. In this case, the Pelwatte Unit had incurred an additional cost of Rs.75,531,483 as the total value to Rs.38,093,900 due to the average price of a ton of sugarcane exceeded Rs.10,000 and an additional Rs.2,500 per ton was charged and, Rs.37,437,583 in the form of transport charges from Sevanagala to Pelwatte. Furthermore, a loss of Rs.726,900 had been incurred due to a reduction of 72.69 tons of sugarcane during the transport from Sevanagala to Pelwatte.	Since the project has not increased capacity, it was decided to transfer the excess sugarcane stalks to the Pelwatte Unit for grinding, and the former chairman has approved the payment of Rs. 12,500 per ton of sugarcane to the Sevanagala Unit. That the transportation charges approved by the institution's price committee have been paid and, that during the transportation of sugarcane stalks, there is usually a loss in weight due to factors such as falling and drying. Abnormal operating losses should be prevented by taking necessary actions to maintain the factory's capacity at an optimal level, and a formal program should be developed and implemented for this purpose.
(o) The company had incurred a loss of Rs.285,643,050 during the year under review, with the Sevanagala Unit incurring a loss of Rs.36,853,050 and the Pelwatte Unit incurring a loss of Rs.248,790,000 due to the sale of spirits below the prices approved by the Board of Directors.	Under the approval given by the then chairman, spirits were sold at prices below those approved by the board of directors. A formal investigation should be conducted and actions should be taken to recover the relevant losses from the responsible parties.

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| (p) | The company had spent Rs.77,548,027 on the Enterprise Resource Planning (ERP) system by the end of the year under review, and the progress of the said project which was to commence in 2022 remained at slow level. Accordingly, the company had not taken actions to complete the work on the project and bring it to the desired usable condition.                                                                                                                                                                                                                                                                                                                                                                                                        | That the work is currently underway to enter account information and that the progress of the project is at slow level.    | An urgent program should be developed and implemented to complete the project work and bring it to the desired usable condition.                                                                                                                                                                                             |
| (q) | Although the sugar production of the Sevanagala Unit had decreased by 3.97 percent in the year under review, the wages cost for sugar production had increased by 30.35 percent compared to the previous year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | That the RCS has declined and the cost of employee wages has increased compared to the previous year.                      | Management should pay attention to cost information and implement cost control strategies.                                                                                                                                                                                                                                   |
| (r) | According to the stock verification report of the year 2023, 306 items worth Rs.6,777,664 which were mentioned as a shortage and 429 items worth Rs.5,192,625 which were mentioned as a surplus, had not been mentioned in the stock verification report of the year under review and action had not been taken regarding those shortages and surpluses.                                                                                                                                                                                                                                                                                                                                                                                                     | Necessary action will be taken regarding stock shortages and surpluses after inquiries are made with the relevant parties. | Proper internal control over stocks should be maintained and shortages and surpluses should be dealt with in a systematic manner.                                                                                                                                                                                            |
| (s) | The capacity expansion project of the Sevanagala factory, which had been initiated in the previous year had not been fully operational by the end of the year under review. The warranty period of the machines worth Rs.201,782,433 that had been imported for that purpose had expired before they were put into use and, machines worth Rs.7,723,058 had been imported without following the procurement procedure. Due to weaknesses in the machinery import process, late fees of Rs.3,622,005 had been paid and although Rs.2,824,704 had been spent on providing food, drink and transportation facilities to the supplier's employees who came from India to install the machinery, the agreement with the supplier did not include such conditions. | It was agreed and that the necessary actions are being taken to make this project operational.                             | Disciplinary action should be taken against the responsible parties for not conducting a formal feasibility study, not implementing the project in accordance with the time frame, and deviating from the procurement procedure and, actions should be taken to recover the losses incurred by the company due to weaknesses |

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|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                    | in the implementation of the project and to formulate a formal program to successfully implement the project.                                                                                                                                                                                     |
| (t) | The tender for the supply of fuel oil was awarded to an external person without following the procurement procedure when purchasing fuel oil for the boilers of the Pelwatte and Sevanagala Unit without purchasing from the Ceylon Petroleum Corporation. The supplier had supplied unrefined substandard black oil removed from ships and machinery instead of refined fuel oil and, the company had paid Rs.341,687,582 for it. Due to the use of this substandard black oil, the company had lost 600,000 liters of ethanol production worth Rs.300,000,000 during the 46 days that the boiler was out of service. | An investigation by the Bribery or Corruption Investigation Division is underway regarding this fuel oil tender that was implemented by the previous management and that all relevant documents have been provided to that institution, and that a response will be provided after receiving them. | The quality of the purchased fuel oil should be checked and the losses incurred by the company due to the purchase of substandard fuel oil should be recovered from the responsible parties.                                                                                                      |
| (u) | Without obtaining the approval of the Department of Management Services of the Treasury for the company's staff requirement (Cadre) and Schemes of Recruitments, the Pelwatte Unit informally recruited 159 employees informally based on the approval of the Board of Directors and 510 employees had been promoted during the years 2021/2022.                                                                                                                                                                                                                                                                       | The company does not yet have an approved cadre or Schemes of Recruitments and employees are recruited as needed.                                                                                                                                                                                  | To submit to the Department of Management Services for approval of the cadre, and to prepare and approve a formal Schemes of Recruitments and a formal investigation should be conducted regarding irregular recruitment and promotions and actions should be taken against the relevant parties. |
| (v) | An agreement was entered into with an external party in 2022 to install a biomass                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | That the action will be taken to recover the advance payment of                                                                                                                                                                                                                                    | The losses incurred by the                                                                                                                                                                                                                                                                        |

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| <p>boiler in the company to obtain the steam required for the distillery at the Sevanagala Unit and an advance payment of Rs.48,600,000 was made. The approval of the Board of Directors had been obtained for the cost-benefit analysis prepared by the factory consultant for this project which included inaccurate data and, proper procurement procedures had not been followed in selecting the relevant supplier. Furthermore, as the boiler had not been installed in the institution by the end of the year under review, the amount spent of Rs.48,600,000 had been idle.</p> | <p>Rs.48,600,000 incurred for the installation of the boiler.</p>                                                                                                                                                  | <p>company due to the failure to conduct a formal cost-benefit analysis and the failure to follow a formal procurement procedure during purchases should be recovered from the responsible parties and formal action should be taken against the relevant parties.</p> |
| <p>(w) Rs.10,260,433 had been spent from January 2020 to April 2022 on providing accommodation and food and beverages in the company's guest houses to external individuals and institutions not involved in the operations or governance of the company.</p>                                                                                                                                                                                                                                                                                                                           | <p>This expenditure includes some expenses related to the activities of the institution and, as pointed out in the audit, that a large amount of money has been spent on parties unrelated to the institution.</p> | <p>The company should take disciplinary actions towards the relevant parties and recover the losses incurred from the responsible parties.</p>                                                                                                                         |
| <p>(x) The 1486 kilograms of brass and copper with a market value of Rs.560,700 had been missed place from the main warehouse of the Sevanagala Unit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                               | <p>Legal action has been taken against the relevant parties regarding the miss place of brass powder and copper parts, and the case is still being heard at the Embilipitiya Court.</p>                            | <p>Responsible parties should be identified and disciplinary action should be taken, and the losses should be recovered.</p>                                                                                                                                           |
| <p>(y) The Sevanagala Unit had imported an evaporator machine worth Rs.9,564,866 in 2018 and paid customs duties of Rs.3,924,394 for it. The company had incurred a loss of Rs.4,830,446 as the customs duty of Rs.4,830,446 paid when the relevant accessories (SS Tube) were returned and re-imported in 2019 due to non-compliance with the specifications had not been collected from the supplier.</p>                                                                                                                                                                             | <p>A preliminary investigation will be conducted with the relevant parties and further action will be taken.</p>                                                                                                   | <p>Formal investigations should be conducted and the losses incurred by the company should be recovered from the responsible parties.</p>                                                                                                                              |

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| (z)  | An amount of Rs.2,200,000 was transferred directly to the personal bank account of the Chief Operating Officer of the Sevanagala Unit on 12 July 2023 citing the need to seek emergency medical treatment and, the Chief Executive Officer had given approval for this contrary to the company's Articles of Association. A loan agreement had not been entered into with the Chief Operating Officer when granting the loan and a payment voucher had not been prepared for granting the loan. | The relevant amount has now been repaid to the company and the Criminal Investigation Department is conducting an investigation into this matter.                                                                                                                                                                                | Disciplinary action should be taken against the responsible parties.                                                                                                                                                            |
| (aa) | Since 09 different projects that had been initiated after the company was taken over by the government had been completely abandoned, Rs.138,683,729 spent on those projects had become idle.                                                                                                                                                                                                                                                                                                   | It is reported that 09 projects initiated by the previous administration after the institution was taken over by the government have been suspended before completion and that only the initial costs incurred before the commencement of those projects have been incurred for some of these projects.                          | Since the expenses incurred have become idle, a re-analysis of the projects should be conducted and a program should be formulated and implemented to immediately complete and put productive projects into a usable condition. |
| (ab) | Out of the 1072.89 hectares of land belonging to Zone No.04 (Kovul Ara) and Zone No.05 (Ginigalpalessa) owned by the Sevanagala Unit, 74.21 hectares were used for unauthorized crop cultivation and 8.32 hectares for unauthorized house and shop construction.                                                                                                                                                                                                                                | That judicial action has been taken for these lands and that further actions will be taken after obtaining fiscal orders and that judicial action will also be taken for the remaining plots of land.                                                                                                                            | Formal actions should be taken to remove unauthorized cultivations and utilize the entire land area for sugarcane cultivation.                                                                                                  |
| (ac) | Although the company had carried out repairs and maintenance work on the houses of the Pelwatte Unit, it had not collected rent for the official quarters of the officers, and the Sevanagala Unit had made various charges between Rs.100 and Rs.850 per month at only nominal rent. Furthermore, although the water and electricity bills of the official quarters were to be paid personally                                                                                                 | The rent for the official quarters is not yet being collected and the maintenance work is being carried out by the institution itself. That a committee has been appointed to determine the rent for these quarters and to submit a report regarding the transfer the maintenance expenses up to a certain limit to the relevant | Actions should be taken to collect monthly rent from officers using company-owned official quarters and to recover personal bills of officers that had                                                                          |

by the officer, due to the fact that the officer is charged only when the water consumption of the Sevanagala Unit exceeds 60 units and a monthly concession of Rs.250 is provided for electricity consumption, the company's funds had been used to settle personal bills of Rs.8,959,256 relating to officers during the year under review.

employees and future action may be taken based on the committee's report. That the nominal rent has been charged from employees from the beginning of the Sevanagala factory and 60 water consumption units are provided to employees without charging as a benefit. been paid by the company.