

Ceylon Fertilizer Company Limited -2018/ 2019

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Fertilizer Company (“Company”) Limited for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

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 Ceylon Fertilizer Company Limited as at 31 March 2019 , and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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

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 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial statements)

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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Comments on Financial Statements

1.5.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Non-compliance	Comments of the Management	Recommendation
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(a) Although the financial assets that had kept as collateral for liability should be disclosed in financial statements in accordance with Paragraph 38 of the Sri Lanka Financial Reporting Standard No. 07 , the details of Fixed Deposits holding as collateral for opening the Letters of Credit during the year under review amounted to Rs. 710,000,000 had not been disclosed in the financial statements.	Not disclosed in the accounts by a mistake.	Actions should be taken to disclose in the financial statements in accordance with Accounting Standards.

- (b) Without entrusting to the name of the Company, the ownership of the land in which the Company is located in the Kelaniya Divisional Secretariat was stated in the previous year's financial statements as Rs. 1,720,000,000 and as a result, that had been re-valued for a Rs. 1,868,965,707 during the year under review and shown as assets of the Company, the value of fixed assets had been overstated.
- The relevant documents relating to transfer of ownership of the land by the Kelaniya Divisional Secretary have been submitted to the Land Commissioner General on 26 December 2016. Accordingly, it is in due to obtain the relevant approval by the Ministry of Lands by referring to the President.
- Arrangements should be made to take over the legal ownership of the land to the Company and taken into financial statements.
- (c) Without entrusting the ownership of the 28 perches of land belonging to the Road Development Authority in the name of the Company, a sum of Rs. 12,600,000 had been shown in the financial statements as compensation receivable to the Company for the aforesaid land.
- The land with 28 perches has been taken over by the Road Development Authority for the Colombo - Katunayake Expressway. The compensations were given for the buildings on the land and as there was no ownership for the land, compensations were not paid .
- The legal ownership of assets should be properly identified and accounted for.
- (d) Even though a sum of Rs. 6,460,000 should be paid as terms and fines for the period from 01 April 2015 to 31 March 2019 for the Land at Akuressa Divisional Secretariat where fertilizer is stored by the Company, that figure had not been shown in the financial statements.
- Actions will be taken to adjust this amount to the next year's accounts.
- Actions should be taken to appear the terms and fines amounted to Rs. 6,460,000 in the financial statements.

1.5.2 Lack of Evidence for Audit

	Item	Amount Rs.	Lack of Evidence	Comments of the Management	Recommendation
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(a)	Trade	156,833,043	Balance	Balance	Actions should be

	Debtors		Confirmation Letters	confirmation letters will be issued as soon as they are received.	taken to obtain the balance confirmation letters.
(b)	Sundry Debtor Balances	105,534,809	Balance Confirmation Letters	Even though the letters have been sent to obtain the balance confirmations, no confirmations received.	Actions should be taken to obtain the balance confirmation letters.
(c)	Balances Receivables from General Treasury	19,159,274,649	Balance Confirmation Letters	Even though the letters have been sent to obtain the balance confirmations, no confirmations received.	Actions should be taken to obtain the balance confirmation letters.
(d)	Balances of Trade Creditors	5,621,686,832	Balance Confirmation Letters	Even though the letters have been sent to obtain the balance confirmations, no confirmations received.	Actions should be taken to obtain the balance confirmation letters.
(e)	Sundry Creditor Balances	31,753,673	Balance Confirmation Letters	Balance verification can be done through journal entries and payment vouchers for the values of Rs. 31,753,673 .	Actions should be taken to obtain the balance confirmation letters.

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

The instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Public Enterprises Circular No. PED 03/2018 dated 07 December 2018	A sum of Rs. 40,739,916 had been paid as incentives to employees during the year under review without the approval of the Treasury.	Although the relevant information has been submitted to obtain Treasury approval for the payments of incentive, it has not been stated that the approval or approval cannot be granted. Payments have been made with the approval of the Board of Directors.	Actions should be taken in terms of Circulars.
(b) Public Finance Circular No. 02/ 2015 dated 10 July 2015	Even though the information about vehicle disposal should be submitted to the Director General of Public Finance and the Auditor General in terms of the Circular, the details of the six disposed vehicles were not presented.	It is informed that the future vehicle disposal activities will be carried out in accordance with the Circular.	Actions should be taken to submit information regarding the vehicles that had been disposed as per the Circular
(c) Section 5.1 of Paragraph 06 of Hand Book of the Guide for the Good Governance Public Enterprises Circular No. PED/ 12	Every government company is required to submit the relevant draft financial statement to the Auditor General within 60 days from the end of the financial year, the Company had submitted its financial	Since the disruption of officers' attendance due to the April 2019 bombing caused the transport difficulties and the	Actions should be taken to submit the financial statements to the Auditor General along with the Annual Report as per the provisions of the Circular.

statements for audit on 31 July 2019. circumstances existed, activities of preparation of accounts could not be carried out.

2. Financial Review

2.1 Financial Results

Operating results for the year under review was a loss of Rs. 34,506,078 and the correspondence loss for the preceding year was Rs. 24,536,064 . The loss after tax had increased by a sum of Rs. 9,970,014 as compared to the preceding year. The increase in administrative costs, distribution expenses and financial costs had mainly attributed to the increase in losses.

3. Operating Review

3.1 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>The Company had entered into an agreement with a private Company to purchase liquid fertilizer in the year under review. The following matters were observed in this regard.</p>	<p>-----</p> <p>Although the security bonds should be kept for imported goods only in accordance with Paragraph 5.4.5 of the Procurement Guidelines, it is correct that a bank overdraft</p>	<p>-----</p> <p>Actions should be taken in accordance with the Procurement Guidelines.</p>
<p>(i) Although the security bonds should be kept for imported goods only in terms of Section 5.4.5 of the Procurement Guidelines, two bank security bonds amounted to Rs. 125 million had been kept for</p>		

obtaining organic liquid fertilizer in accordance with Paragraph 6.5 of the agreement. Bank overdraft facilities amounted to Rs. 112.5 million had been obtained by the supplier Company using those bank securities and thereafter, actions had been taken to place 02 fixed deposits belonging to the Company valued at Rs. 94,438,766 as bank guarantees at the Meeting of Board of Directors held on 15 June 2018 for the balance remained on that date in the bank overdraft obtained by the supplier Company.

facility amounted to Rs. 112.5 million has been provided to the liquid fertilizer supplier company mentioned in the report by keeping the fixed deposits of the Company as securities. Nevertheless, it is stated that granting approval to keep 02 fixed deposits valued at Rs. 94,438,766 as security for that loan at the Meeting of the Board of Directors held on 15 June 2018 and this was done with the intention of releasing the fixed deposit valued at Rs. 240 million remained until then.

- (ii) Although the relevant bank has informed the Management of the Company several times in respect of the balance of Rs. 75,980,000 remained unpaid by 12 February 2019, from that bank overdraft, a sum of Rs. 80,502,290 with that arrears balance and the interest amounted to Rs. 4,522,099 had been recovered from the two fixed deposits belonging to the Company which had kept as security. Nevertheless, the liquid fertilizer company had not taken any action to settle the bank overdraft as per the relevant agreement and the Management of the Company had also failed to recover that amount.

It is accepted as stated in the report, the amount of the loan remained and its related interest amounted to Rs. 80,502,290 has been recovered from the 02 fixed deposits made in the bank by the Company.

Actions should be taken against responsible officers in this regard and arrangements should be made to recover the money from that Company.

3.2 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) It was observed in audit that the storage facilities were inadequate to store imported fertilizer during the year due to the remaining of non-moving stock of fertilizer amounting to Rs. 1,393,587 identified in the final stock during the year under review.	Steps have been taken to distribute these stocks free of charge to the farms maintained by state-owned institutions by 01 October 2019. Actions are to be taken to issue the unidentified non-moving fertilizer stocks for the year under review to the government agencies as mentioned earlier under the approval of the Board of Directors and the National Fertilizer Secretariat.	Actions should be taken to obtain adequate storage taking necessary actions in respect of the non-moving fertilizer stocks.
(b) Necessary arrangements had not been taken to recover the balances receivables from the Janatha Estate Development Board ,Director of Agriculture, Ampara and the State Plantation Corporation amounted to Rs. 86,408,870 , the balances receivable from three distributor agencies amounting Rs. 47,385,977 for more than one year, the balance receivable from a customer older than one year amounting Rs. 10,230,000 and the balance of 1,839,321 receivable from the Agrarian Services Center, Mahiyanganaya.	Actions have been taken to collect money through discussions with state institutions and to take legal actions against other agencies.	Actions should be taken to recover the relevant debtor balances promptly.
(c) Even though an other receivable balance older than 05 years amounting to Rs. 6,644,781 and a balance of Rs. 7,694,938 receivable from the store keepers in respect of the shortage of fertilizer in the Potuvil Warehouse which has been in existing since 2015 ,	Legal actions are being carried out.	Actions should be taken to recover these relevant debtor balances promptly.

had been shown , the Company had not taken necessary actions to recover those balances by the year under review.

- (d) Although the quantity of 250 metric tons of fertilizer with Net Present Value of Rs. 5 million provided by the Company to the Sri Lanka Fertilizer Company on an exchange basis should be provided before 31 January 2019 as per the agreement , and also that quantity of fertilizer had not been handed over even by 31 August 2019, the Company had not taken actions to procure the fertilizer stock as per the agreement.
- It is agreed to return 250 metric tons of urea fertilizer from the stock of fertilizer that is to be imported in the next quarter.
- Actions should be taken in accordance with the agreements to obtain the stock of fertilizer immediately.
- (e) Due to not submitting of the relevant documents pertaining to imported fertilizer properly to the National Fertilizer Secretariat, it had been impossible to obtain a sum of Rs. 184,117,534 for the stock remained as at 06 April 2018 and the fertilizer subsidy amounted to Rs. 182,078,147 for the fertilizer received on May 2018 to the Company even by 31 March 2019 .
- Necessary steps have been taken to complete the relevant files properly and to provide with the relevant documents to the National Fertilizer Secretariat in the next year. Similarly, the relevant sections have been asked to provide these documents in writing.
- Completing and handing over the relevant documents and necessary measures should be taken with regard to the officers involved.
- (f) It was informed that due to delay in payment regarding the Letters of Credit opened for importation of fertilizer it was the responsibility of the fertilizer company to settle the interest charged by the bank as per the letter of the Director General of the Department of Development Finance dated 05 October 2018. Nevertheless, despite the Fertilizer Company was having over a billion rupees periodic deposits,
- When making payments related to the Letters of Credit of the Company, short-term loans are settled after receiving subsidies settling of those bills by a short-term bank loan .
- Payments relating to Letters of Credit should be made in accordance with the instructions of the Department of Development Finance and actions should be taken to utilize the government funds effectively.
- This is done so in the hope that the subsidies will be received promptly. But due to the non-receipt of subsidy money to us on due date, a sum of Rs. 36,267,366 had to

convert the unsettled amount into a short-term loan on maturity of the Letter of Credit in the year 2018/19, a sum of Rs. 36,267,366 had been paid. Further, although it is the responsibility of the relevant officers to make such payments in the year under review, due to the negligence of the officials, the Company had to pay huge sums of interest.

be paid as interest. Further, it can be stated that if our Fixed Deposit is refunded before maturity when paying for Letters of Credit by discounting it, the Company loses a lot of money that it is supposed to receive as interest.

- (g) Even though it had been planned procurements amounting Rs. 256.08 million under the contracts consisting of constructing of fertilizer warehouses, internal road development in the Annual Procurement Plan , since all the procurements were not carried out during the year, the provisions could not be utilized.
- Arrangements are being made to complete all the above construction works in the Corporate Plan of 2018/2019 and the Action Plan of 2018/2019 quarterly.
- Actions should be taken in line with the Annual Procurement Plan.
- (h) Even though the Company had a Laboratory with the laboratory equipment valued at Rs. 18,557,867 registered with the Sri Lanka Accreditation Board which can generate revenue, since it had earned only a revenue amounting to Rs. 380,750 had been earned during the year under review, it was observed in audit that the actions had not been taken to formulate and implement a Strategic Plan that would generate revenue and according to that , the resources of the laboratory were underutilized .
- It is in due to take a decision in consultation with the Ministry on the possibility of maintaining the laboratory and its staff on a secondment basis to the Ministry of Agriculture or else a separate institution of a Department of Agriculture.
- Actions should be taken to obtain a maximum efficiency with equipment available in the laboratory

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though relevant eligibility requirements should be met as per the Scheme of Recruitment when promoting employees in the Company, two officers who are serving as Company Manager (Administrative and Human Resources) and Assistant Manager (Finance) had been promoted during the year under review for those posts on the approval of the Board of Directors despite not fulfilled relevant qualifications .</p>	<p>As there has been injustice on political vengeance for the post of Assistant Manager (Finance) and to officer himself and since the officer appointed to the post of Manager (Administrative and Human Resources) was also in due to retire, these positions have been approved by the Board of Directors considering his service period.</p>	<p>Actions should be taken to grant promotions as per the recruitment procedure.</p>
<p>(b) Although an officer had been appointed to the post of Manager (Procurement) on acting basis, necessary arrangements had not been made to fill the vacancy.</p>	<p>The Board of Directors has approved the re-appointment of the post on 21 September 2019 . Accordingly action will be taken to fill the vacancies subject to the approval of the Department of Management Services.</p>	<p>Actions should be taken to recruit permanently for the post.</p>