

## **Ceylon Fertilizer Company Ltd. - 2015**

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The audit of financial statements of the Ceylon Fertilizer Company Ltd. for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report.

### **1.2 Establishment of the Company**

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The Ceylon Fertilizer Corporation has been incorporated under the State Industrial Corporations Act, No. 49 of 1957 with the financial and technical assistance of the Federal Republic of Germany in the year 1964. It had been re-established as Ceylon Fertilizer Company Ltd. with effect from 15 September 1992 in terms of the transformation of Government Corporations and Government Owned Business Undertaking into limited liability companies Act, No. 23 of 1987 and it has been registered and operated under the Companies Act, No.07 of 2007 at present.

### **1.3 Management's Responsibility for the Financial Statements**

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

### **1.4 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

## **1.5 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Fertilizer Company Ltd. as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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Assets costing Rs.78,606,015 had been fully depreciated due to failure in annually reviewing the useful life for non-current assets in terms of Standard 16. However, they had still been in use. As such, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the interest income on fixed deposits and Treasury bills amounted to Rs.164,141,923, according to the financial statements, it had been shown as Rs.167,801,299 and as such, the interest income had been overstated by Rs.3,659,376.
- (b) Even though the value of fixed deposits amounted to Rs.3,042,587,476 as at 31 March 2016, according to the statement of financial position presented, it had been shown as Rs.3,046,991,327 and as such, it had been overstated by Rs.4,403,851.
- (c) Long term loans amounting to Rs. 21,366,705,534 obtained in the years 2013 and 2014 for settlement of Letters of Credit had been shown under Current Liabilities.

#### **2.2.3 Unexplained Differences**

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- (a) Even though the interest income received for fixed deposits under Assessable Income had been shown as Rs.125,399,320 , the actual interest received had been Rs.120,995,571 thus indicating a difference of Rs.4,403,749.
- (b) Even though the interest income received for Treasury Bills under Assessable Income had been shown as Rs.29,361,028 , the actual interest income received had been Rs.29,022,874 thus indicating a difference of Rs.338,154.

- (c) Even though the Hypothetical Tax Value had been shown as Rs.3,307,720 under tax liability, that value had been Rs.3,224,764 thus indicating a difference of Rs.82,956.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) A sum of Rs.86,408,870 shown as balances receivable from three institutions had remained irrecoverable from a period over 10 years.
- (b) Compensation amounting to Rs.12,600,000 recoverable due to failure in claiming entitlement for the portion of land of 28 perches in extent acquired for the Colombo-Katunayake Highway Project could not be ascertained.

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

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The following instances of non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Public Enterprises Circular No.57 of 11 February 2011 and Paragraph 08 of the National Budget Circular No. 2/2015 of 31 January 2015	A sum of Rs.2,521,000 had been incurred contrary to the objectives in the year under review for various publicity and sponsorship expenditure.
(b) Cabinet Decision No. 11/2360/549/034 of 12 January 2012	Even though a methodology should be prepared in determining fertilizer transportation fees to regional stores, action had not been taken accordingly. The rates determined by the Procurement Committee of the Ministry on 25 March 2009, transport fees had been approved by the Chairman from time to time with the recommendation of the Rates Revision Committee and the contract had been awarded subsequently. Even though 7 years had lapsed, rates had not been revised by obtaining the decisions of the Procurement Committee of the Ministry.
(c) Paragraph 02 of the Public Enterprises Circular No.02/2015 of 25 May 2015	Even though the maximum monthly telephone charges including taxes that can be paid to a Working Director had been Rs.10,000 , monthly telephone charges of Rs.12,000 had been paid to the Working Director of the Company.

- (d) Section 47 of the Employees' Provident Fund Act, No.15 of 1958
- A sum of Rs.28,999,236 had been paid as the Employees' Provident Fund in the year under review and Employees' Provident Fund including interim allowances and special allowances which do not fall into the earning category, had been paid.

## **2.5 Transactions not supported by Adequate Authority**

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The following observations are made.

- (a) A sum of Rs.300,000 had been spent as sponsorship and aids in 05 instances in the year under review without obtaining the approval of the Board of Directors.
- (b) Despite having 03 Jeeps and 03 Double Cab vehicles in the pool, a Hybrid motor vehicle had been obtained for a Working Director of the Company for a monthly rental at Rs.95,000 and a sum of Rs.1,485,813 had been spent thereon in the year under review.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax profit of Rs.836,604,005 as compared with the corresponding pre-tax profit of Rs.520,200,738 for the preceding year thus indicating an increase of Rs.316,403,267 in the pre-tax profit of the year under review as compared with the preceding year. The increase in the income by Rs.406,779,899 and the decrease in the distribution cost by Rs.43,695,688 had been the main reasons for this increase.

In the analysis of the financial results of the year under review and 04 preceding years, it was observed that the surplus of Rs.159,544,495 for the year 2011/2012 had increased up to Rs.836,604,005 continuously by the year 2015/2016.

In considering the employees' remuneration, provisions for depreciation and tax paid to the Government, the contribution of the Company amounting to Rs.281,337,813 in the year 2011/2012 had improved up to Rs.1,172,751,116 continuously by the year 2015/2016.

## **4. Operating Review**

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### **4.1 Performance**

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The Ceylon Fertilizer Company had been established under the mission of ensuring profit maximization and sustainability through production and marketing of fertilizer for extended, diversified market demand, while actively contributing to increase income and profitability in the Agriculture and Agrarian Services Sector in Sri Lanka in compliance with the State policies.

## **4.2 Management Activities**

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- (a) Even though 03 months had elapsed after ending the period of agreements in 03 stores out of 08 stores for which lease rentals are paid, new lease agreements had not been entered and lease agreements of 04 regional stores had not been registered. Fertilizer stores had been maintained in 13 places the ownership of which had not been established and action had not been taken to enter into lease agreements in respect of using those buildings.
- (b) Bank overdrafts had been obtained from the Current Account maintained in the People's Bank due to improper financial management and as such, a sum of Rs.1,726,619 had been paid as interests on overdrafts during the year under review.

## **4.3 Operating Activities**

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About 38 types of non-moving fertilizer of 676.48 metric tons had remained in the fertilizer stores of the company and it was observed that the space allocated for this stock of fertilizer valued at Rs.2,014,431 had remained idle as well.

## **4.4 Losses and Damages**

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The following observations are made.

- (a) Action had not been taken to recover a sum of Rs. 714,753 further recoverable from the loss amounting to Rs.2,382,510 occurred due to shortage of the stock in the Regional Stores at Madampitiya in the year 2012.
- (b) A loss of Rs.336,772 had been sustained by the Company due to a shortage of the stock in the Regional Fertilizer Stores at Pelwatte in the year 2015 and out of that, a sum of Rs.104,940 had been paid to the Company by the Stock Officer. Despite a sum of Rs.231,832 further recoverable from this officer, he had been deployed in the service as the Stock Officer in the Regional Stores in Trincomalee. Even though charge sheets thereon had been sent on 14 December 2015, inquiries had not been concluded even by 08 July 2016.
- (c) Legal action had not been taken even by 08 July 2016 to recover a sum of Rs.21,382,468 due to failure in depositing proceeds from the sale of fertilizer and the loss of Rs.15,629,218 sustained by the company as a result of the shortage of stocks observed from the Stock Officer in the fertilizer stores in Pottuvil.

## **4.5 Idle and Underutilized Assets**

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Even though laboratory equipment valued at Rs.17,617,653 granted by the Ministry of Agriculture and a laboratory of accredited level with a qualified staff are owned by the Company, the Fertilizer Secretariat had carried out quality tests for samples of fertilizer from external institutions by paying additional charges and as such, those assets had remained idle.

#### **4.6 Deficiencies in Contract Administration**

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The following observations are made.

- (a) Estimates valued at Rs.27,998,598 had been approved in the year 2013 for the construction of the Nuwara Eliya Circuit Bungalow and even though a sum of Rs.1,474,655 had been paid exceeding the estimated amount for additional work, the approval of the Procurement Committee had not been obtained thereon. Even though a Certificate of Completion of Works should be obtained from the Consulting Company in terms of Guideline 8.12.2 of the Government Procurement Guidelines, action had not been so taken.
- (b) An agreement had been entered into with a contractor for tarring roads of the premises of the Head Office of the Company and a mobilization advance of Rs.8,859,708 had been paid on a bank bond. Subsequently, the contractor had stopped the work and the Company had failed to get back the money paid within the validity period of the bond.

#### **4.7 Apparent Irregularities**

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A sum of Rs.1,324,674 had been paid by submitting false registers stating that the employees had been deployed for the coordination of distribution of fertilizer to the District Stores and those false registers of arrival and departure had been prepared and submitted by an officer of the Company. Disciplinary action had not been taken against those officers.

#### **4.8 Staff Administration**

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The following observations are made

- (i) It was observed that 63 employees had been deployed by the Company exceeding the limits approved by the Department of Management Services.
- (ii) Even though it had been decided at the meeting of the Board of Directors of the Company held on 28 August 2014, to effect the rules not included in the Personnel Procedure prepared by the Company in respect of administrative functions and personnel administration of the Company, the approval of the Treasury had not been obtained thereon. There were instances where action had been taken by superseding the Shops and Office Employees' Ordinance relating to the Company, observed at the examination carried out in respect of working days, duty hours, overtime payments, leave and allowances.

#### **4.9 Resources of the Company given to other Government Institutions**

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Even though a labourer of the Distribution Division whose salary is paid by the Company had been deployed for the duty at the President's House from 01 January 2016, the proper approval had not been obtained thereon.

## **5. Good Governance and Accountability**

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### **5.1 Annual Reports**

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A draft annual report had not been submitted along with the financial statements for the year 2015/2016 in terms of Public Finance Circular No. PF/PE/21 of 24 May 2002.

### **5.2 Budgetary Control**

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Variances ranging from 23 per cent to 1654 per cent were observed between the budgeted and the actual income and expenditure of 79 items thus indicating that the budget had not been made use of as an effective instrument of financial control.

## **6. Systems and Controls**

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

### **Areas of Systems and Controls**

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### **Observations**

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| (a) Financial Control       | Action had not been taken to incur expenditure in a manner of achieving the objectives of the Company and to confirm the payments by documentary evidence.   |
| (b) Staff Administration    | Approval for proper Procedural Rules had not been obtained from the Treasury and instances were observed where action had not been taken in accordance with the Shops and Office Employees' Ordinance, Establishments Code and Financial Regulations.  |
| (c) Contract Administration | Instances were observed where action had been taken deviating from the Procurement Guidelines.   |
| (d) Stores Control          | <ul style="list-style-type: none"><li>(i) A methodology had not been prepared for the transportation of fertilizer to regional stores.</li><li>(ii) Agreements relevant for regional stores obtained on lease rent basis had not been entered into.</li><li>(iii) An internal control had not been implemented for maintenance of stocks of regional fertilizer stores and financial position.</li></ul> |