

Ceylon Fertilizer Company Limited – 2017/2018

The audit of financial statements of the Ceylon Fertilizer Company Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 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 observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

1.4 Establishment of the Company

The Ceylon Fertilizer Company Limited 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 Limited with effect from 15 September 1992 in terms of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987 and it has been registered and operated under the Companies Act, No.07 of 2007 at present.

1.5 Basis for Qualified Opinion

Confirmation of balances had not been made available in respect of a sum of Rs.18,917,610,958 receivable from the Treasury, trade debtors amounting to Rs.293,697,701 and creditors totalling Rs.2,373,490,543 shown in the financial statements. Further, a sum of Rs.18,917,610,958 receivable from the Treasury could not be ascertained in audit by the accounts of the General Treasury. However, a sum of Rs.3,145,012,000 had been received on 03 August 2018 as per the request made to the Treasury by the Company and a balance of Rs.15,772,598,958 was receivable further.

In the computation of deferred tax by the Company, the tax of the year under review had been computed without considering the revaluation surplus generated by the revaluation of lands and buildings in terms of paragraph 195(a)1 of the Inland Revenue Act No.24 of 2017.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of 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 Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings.

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
(b) In my opinion:

- I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No.07 of 2007.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Public Finance Circular No.PF/PE/21 of 24 May 2002	A draft annual report had not been submitted along with the financial statements of the year under

review.

(b) Paragraph 06 of Economic Services Charge Act, No.13 of 2006

The Economic Service Charge should be paid on or before the 20th day of the month immediately succeeding the end of that relevant quarter. Nevertheless, the Economic Service Charge amounting to Rs.17,244,452 payable for the 04 quarters of the year under review had not been paid even by 30 September 2018.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a deficit of Rs.24,536,064 as against the surplus of Rs.139,592,032 for the preceding year thus indicating a deterioration of Rs.164,128,096 in the financial result of the year under review as compared with the preceding year. Even though the sales income had increased by Rs.1,023,352,005, the increase in the sales cost by Rs.1,222,880,719 had been the main reason for the said deterioration.

In the analysis of the financial results of the year under review and 04 preceding years, it was observed that the after tax net profit of Rs.178,459,452 for the year 2013/2014 had increased up to Rs.603,272,829 continuously by the end of the year 2015/2016. Nevertheless, after the discontinuation of fertilizer subsidy programme, the net profit of the year 2016/2017 had decreased to Rs.139,592,032 and it had converted into a loss of Rs.24,536,064 in the year under review. After readjusting the employees' remuneration, depreciation for property, plant and equipment and Government tax to the financial result, the contribution of the year under review had improved by Rs.119,942,036 as compared with the preceding year.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

- (a) Even though provisions totalling Rs.85 million had been made in the Annual Procurement Plan and Budget for the renovation of internal roads, those provisions had not been utilized.
- (b) A total sum of Rs.29.82 million had been included in the Procurement Plan of the year under review for the installation of a mixing plant, cable system and a solar power system and for the purchase of a generator. Nevertheless, provision therefor had not been made in the annual budget.

4.1.2 Management Activities

Even though an income of Rs.6.794 billion was targeted from the sale of direct fertilizers such as Urea, MOP and TSP and mixed fertilizers during the year under review, the actual sales income had been Rs.3.403 billion and the sales income earned was 50 per cent due to the decrease in the market share as a result of failure to import fertilizer after having identified the periods of each season for which the fertilizers are required.

4.2 Management Activities

The following observations are made.

- (a) Even though a public officer who desires to go abroad should obtain the approval of the Prime Minister before he leaves the country in terms of Section 10.1 of Chapter XV of the Establishments Code, the Chairman and the Working Director had travelled to Switzerland in the year under review without such an approval.
- (b) A fixed deposit of Rs.500 million made in the People's Bank during the financial year 2013/2014, had been encashed by the company without obtaining the approval of Board of Directors.

4.3 Legal Action initiated against the Company or by the Company

Cases filed against four sales representatives pertaining to shortages of fertilizer stocks suffered by the Ceylon Fertilizer Company Limited over 10 years ago were pending.

4.4 Staff Administration

Vacancies existed in the posts of General Manager and Human Resource Manager since the year 2015 and even though acting officers were appointed to these posts, no action had been taken to fill the said vacancies even by 30 September 2018.

5. Achievement of Sustainable Development Goals

Every Government Institution should act in terms of the 2030 "Agenda" for Sustainable Development of the United Nations and the Ceylon Fertilizer Company Limited had been aware of the manner in implementing the functions that come under its scope pertaining to the year under review.

- (a) Nevertheless, the responsibilities had not been duly assigned to various divisions of the Company for the achievement of sustainable development goals identified by the Company.
- (b) Even though the Government and Non-Governmental Organizations had been stated as the interested parties regarding the function of Company for the implementation of sustainable development goals, the Company had failed to identify those institutions properly. As such, it was observed that a participatory approach was not depicted.

- (c) Even though 41 computers with internet facilities were required for the information system which should be operated for the evaluation of performance relating to the achievement of sustainable development goals, a shortage of 26 computers with such facilities existed in the Company as at the end of the year under review.

6. Accountability and Good Governance

6.1 Procurement of Liquid Fertilizer

The Company had entered into an agreement with a private company for the purchase of liquid fertilizer in the year under review and facility to deposit a bank guarantee of Rs.125,000,000 in the said private company and obtaining a loan by using that guarantee, had been provided to the said company in terms of paragraph 6.5 of that agreement. Accordingly, that company had obtained a bank overdraft of Rs.112, 500,000 by using the said guarantee. Further, in terms of Guideline 5.4.5 of the Procurement Guidelines, guarantees should be submitted only for the goods imported. Even though a guarantee was not required for local suppliers and a buffer stock of liquid fertilizer valued at Rs.3,240,000 per month was adequate in case of minimum sale, providing a guarantee of such a significant amount instead of granting an appropriate advance was questionable in audit.

6.2 Tabling of Annual Reports

The Annual Report for the year 2016/2017 had not been tabled in Parliament even by 30 September 2018.

6.3 Budgetary Control

Variances over 40 per cent were observed between the budgeted and the actual expenditure of 46 items in the year under review, thus the budget had not been made use of as an effective instrument of management control.

6.4 Unresolved Audit Paragraphs

Deficiencies in the contract for construction of a Circuit Bungalow in Nuwaraeliya, which were pointed out by the Paragraph 4.7 (b) of the Auditor General's Report for the year 2016/2017, had not been rectified.

7. Systems and Controls

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

(a) Accounting

(b) Payment of Tax

(c) Contract and Procurement Procedure

Observations

Failure in paying attention to follow the Sri Lanka Accounting Standards and maintain accounting books.

Failure to take action as per the laws and rules in Tax Acts.

Failure to follow the Procurement Guidelines.