

## **Colombo Commercial Fertilizer Company Limited – 2017/2018**

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The audit of financial statements of the Colombo Commercial 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 the 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 for the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 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.

### **1.3 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. 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 misstatement 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.

### **1.4 Basis for Qualified Opinion**

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- (a) Letters of Confirmation on Treasury grants receivable amounting to Rs.10,271,929,581 and creditors totalling Rs.23,630,938 shown in the financial statements had not been made available to Audit. As such, the accuracy and existence of the said balances could not be confirmed in Audit.

- (b) The useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of Sri Lanka Accounting Standard 16. Even though the machinery and equipment and motor vehicles costing Rs.58,422,683 had been fully depreciated, they had still been in use. However, action had not been taken to rectify the said estimated error in terms of Sri Lanka Accounting Standard 08.
- (c) The debtors balance totalling Rs.2,574,321 included in debtors and receivables and the balance of Rs.4,993,147 receivable from Lanka Fertilizer Company as at the end of the year under review had not been shown in the financial statements of those institutions.
- (d) The profit earned from sale of lands should be considered in the annual computation of tax in terms of paragraph 6(2) of the Inland Revenue Act, No.24 of 2017 and the effect of the revaluation surplus generated by the revaluation of those lands should be considered in the computation of annual deferred tax. However, action had not been taken accordingly relating to the land owned by the Company.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial position of the Company as at 31 March 2018 and its financial performance and cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Accounting Standards,

#### **2.1.1 Report on other Legal and Regulatory Requirements**

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

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

### **2.2 Accounts Receivable**

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Debtors balances older than five years totalling Rs.17,021,172 had been continuously brought forward in accounts without taking action to recover the said amount. Moreover, a sum of Rs.161,076,726 receivable as a balance from the General Treasury for the payment of interest on the loan relating to purchase of fertilizer, had been shown under other receivable balances and the Company had failed to recover the same.

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

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The following non-compliance with Laws, Rules, Regulations and management Decisions were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 103, 104	Boards of Inquiries had not been appointed for fixing of responsibility relating to a shortage of 19.4 metric tons of fertilizer valued at Rs.1,349,522 and failure in banking cash from sales amounting to Rs.2,892,000 revealed by the Company in June 2018 and matters such as reporting to Police, submission of Preliminary and Full Inquiry Reports had not been carried out.
(ii) Financial Regulation 371 and Public Finance Circular No.03/2015 of 14 July 2015	Sub-impressts granted for a specific purpose should be settled within 10 days after the completion of the purpose for which it was granted. However, sub-impressts totalling Rs.373,500 granted in 19 instances to ten officers in the year under review had been settled with a period of delay ranging from 11 days to 58 days.
(iii) Financial Regulation 756	An Annual Board of Survey had not been conducted relating to inventoried goods by the Company for the year under review and 05 preceding years and presented the reports thereon to the Auditor General.
(iv) Financial Regulation 880	Even though the Storekeepers are required to give security, 07 Storekeepers of the Company had not given security.
(b) Public Finance Circular No.PF/PE/21 of 24 May 2002	A draft Annual Report had not been presented along with the financial statements of 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 had resulted in a pre-tax net profit of Rs.290,312,645 for the year ended 31 March 2018 as compared with the

preceding year, the corresponding pre-tax net profit of Rs.70,174,292 in the preceding year, thus observing an improvement of Rs.220,138,353 in the financial result of the year under review as compared with the preceding year. The increase in the financial income by Rs.105,494,871 and identifying the difference of Rs.395,599,750 between the balance of the loan account relating to the purchase of fertilizer and the balance receivable from the Treasury to settle the said loan as income, had mainly attributed to the improvement of the financial result.

#### **4. Operating Review**

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##### **4.1 Performance**

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###### **4.1.1 Planning**

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- (a) It is the full responsibility of the Board of Directors to guide the business so as to achieve the proposed targets in accordance with a Corporate Plan prepared at least for a period of 03 years as the business activities of public enterprises should be managed with a short term and long term vision. However, the Company had not prepared a Corporate Plan.
- (b) An Action Plan had not been prepared including the activities expected to be implemented in the year under review.

##### **4.2 Management Activities**

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The following observations are made.

- (a) According to the decisions of the Loan Committees of the Company, in the sale of fertilizer to its agents on credit basis, fertilizer should be sold under credit limits from Rs.one million to Rs.two million. However, fertilizer valued at Rs.10.89 million had been sold on credit basis to 09 agents exceeding the approved limits. Moreover, the Company had failed to recover the loans from those agents even by the end of the year under review.
- (b) According to a physical verification of the No.01 – B Store carried out by the Audit on 30 September 2018, the balance of urea fertilizer was 3023.85 metric tons according to the stock books and the physical balance was 3234.60 metric tons. As such, a physical balance of 210.75 metric tons had existed exceeding the balance of the stock book and the attention of the Management had not been drawn thereon.
- (c) Seven fixed deposit accounts had been opened in the year under review without the approval of the Board of Directors and a sum totalling Rs.1,395 million had been deposited therein.

##### **4.3 Operating Inefficiencies**

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- (a) The cheque valued at Rs.113,677 received from a private institution on 24 January 2018 for cash on sales, had not been presented to the bank on the due date. As such, the bank

had dishonoured it on 22 May 2018 due to expiry and action had not been taken even by 15 October 2018 to recover the amount relating thereto from the relevant institution.

- (b) Action had not been taken even by 15 October 2018 to recover the advance of Rs.75,814 granted to a private company in the year 2013.
- (c) In terms of paragraph 06 of the Economic Services Charge Act, No.13 of 2006, the economic service chargeable should be paid before the twentieth day of the month immediately succeeding the end of that relevant quarter. Nevertheless, action had not been taken even by 15 October 2018 to pay the economic service charge totalling Rs.17,244,452 payable relating to the year under review.
- (d) The approval of the Pradeshiya Sabha had not been obtained in terms of Section 122 of the Pradeshiya Sabha Act, No.15 of 1987 for 06 commercial hoardings erected in six districts by spending a sum of Rs.3,476,948 with the intention of promoting sales.

#### **4.4 Idle Assets**

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The following observations are made.

- (a) An office building of 4,000 square feet in extent in the Company office premises was closed down for a period of nearly 05 preceding years and action had not been taken to make use of this building or to earn an income therefrom.
- (b) A fertilizer mixing machine had been purchased on 06 March 2018 by spending a sum of Rs.850,000 and this mixing machine had remained idle even by 15 October 2018.

#### **4.5 Staff Administration**

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The following observations are made.

- (a) Action had not been taken to fill 28 vacancies including the posts such as Marketing Manager, Accountant, Assistant Manager (Sales) and Administrative Officer of the Company.
- (b) Despite the Assistant Manager (Legal) of the Company having obtained the licence for working as a Company Secretary, without obtaining her services, a Company Secretary had been appointed from outside.

#### **5. Achievement of Sustainable Development Goals**

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Every Government institution should act in terms of Year 2030 “Agenda” of the United Nations on sustainable development and the Company had not been aware of the manner in which action should be taken relating to the year under review on the functions coming under its scope.

- (a) Action had not been taken by the Company to identify the focal points in reaching sustainable development goals and targets and in reaching targets as well as indicators of measurement.

- (b) The functions identified by the Company in reaching sustainable targets had not been included in the Annual Plan and the financial provisions required in performing the said functions had not been included in the Annual Budget.

## **6. Accountability and Good Governance**

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### **6.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the financial year. However, the financial statements relating to the financial year of 2017/2018 had been presented to the Auditor General only on 09 August 2018.

### **6.2 Procurement Process**

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#### **6.2.1 Procurements**

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The Company had not prepared a Procurement Plan for the year under review and a sum of Rs.1,929.05 million had been spent for the procurement of works, goods and services.

### **6.3 Budgetary Control**

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A variance above 40 per cent was observed between the budgeted expenditure and the actual expenditure relating to 15 Objects in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **6.4 Tabling of Annual Reports**

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The Annual Reports relating to the years 2015/2016 and 2016/2017 of the Company had not been tabled in Parliament even by 15 October 2018.

### **6.5 Unresolved Audit Paragraphs**

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Failure in taking action by the Company to make proper use of a land obtained on lease from another institution indicated in paragraph 4.2 of the Report of the Auditor General in the year 2016/2017, had not been rectified even by the end of the year under review.

## **7. 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 controls.

<b>Area of Control</b>	<b>Observation</b>
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(a) Accounting	Failure in maintaining books of account in accordance with Sri Lanka Accounting Standards
(b) Assets Management	Failure in taking action to make use of idle or underutilized assets
(c) Human Resources Management	Failure in necessary recruitments for vacancies in the main posts