

State Timber Corporation - 2018

1.1 Qualified Opinion

The audit of the financial statements of the State Timber Corporation (“Corporation”) for the year ended 31 December 2018 comprising the statement of financial position and the statement of comprehensive income statement of 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 and Finance Act No. 38 of 1971. 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 Corporation as at 31 **December 2018**, 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 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4 Audit Scope (Auditor's Responsibility in connection with Audit of 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 Corporation'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 Corporation'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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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a) Debit balance of Rs. 161,776,032 was shown under creditors being the total of accounts consumer advances, cash sale advances and cash sale control in terms of Section 32 of Standard 1 of the Sri Lanka Accounting Standards. Hence it was observed that it is not indicating the true status of the creditors balance as presented in the financial statements.	Out of the amount of Rs. 161,776,032 the amount settled in January 2019 is Rs. 106,783,829. Due to a delay the said amount could not be entered in the ledger as at 31 st December 2018. It is informed that steps will be taken to settle the balance amount of Rs. 54,992,203 during this period.	Should comply with the Sri Lanka Accounting Standards.

<p>b) In terms of Section 61 of the Sri Lanka Accounting Standard No. 16 the depreciable system used to depreciate assets should be reviewed at least at the end of each financial year and if there is a considerable difference of the expected ratio of future economic income consummation of the assets, the depreciation system should be changed to display the said changed ratio. The said change was not shown as a change in the accounting assessment in terms of the Sri Lanka Accounting Standard No. 08.</p>	<p>With relevance to the accounting standards and percentages and proposals of assets depreciation is decided by the Corporation considering the expert opinions and effective lifetime of the asset.</p> <p>In terms of the Asset Management Circular No. 2018/04 issued by the Secretary of the Treasury and Assessment of Non-Cash Asset Guidelines dated 31st December 2018 issued by the Controller General Office the Corporation has taken steps to assess all of its assets. The corporation is intending to change the depreciation system once the said process is over.</p>	<p>Should comply with the Sri Lanka Accounting Standards.</p>
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c) In terms of Section 79 of the Sri Lanka Accounting Standard No. 16 the below mentioned information has not been revealed as per the Requirement of the users of the financial statements.

<p>(i) The carrying amount of temporarily idle property, plant and equipment.</p>	<p>In terms of the Asset Management Circular No. 2018/04 dated 31 December 2018 issued by the Secretary of the Treasury and Assessment of Non-Cash Asset Guidelines dated 31st December 2018 issued by the Controller General Office the Corporation has taken steps to re- assess all of its assets. Once the said process is over steps will be taken in the future to dispose the temporarily unused assets or if those can be used after repair to utilize the same.</p>	<p>Should be comply with the Sri Lanka Accounting Standards.</p>
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| (ii) | Carrying value of the property, plant and equipment which has not been divided in to retired from the active use or kept aside for sale categories in terms of No. 05 of the Sri Lanka Accounting Standard. | Assets are being disposed during the year after identifying the assets which should be disposed during the year. Such disposed assets has been described under note No. 8 pertaining to property, plant and equipment | Should be comply with the Sri Lanka Accounting Standards. |
| (iii) | The fair value if there is a material difference of the fair value from the carrying value of the property plant and equipment when using the Cost model. | The carrying value of the fully depreciated properties, tools and equipment belonged to the Corporation is disclosed by Note No. 08. In terms of the Asset Management Circular No. 2018/04 dated 31 st December 2018 issued by the Secretary of the Treasury and the Assessment of Non-Cash Asset Guidelines dated 31 st December 2018 issued by the Controller General Office required steps have been taken to re-assess the total assets belonged to the Corporation in the year 2019 . Accordingly these assets will be recalculated in the future and if there is a material difference of the fair value from the carrying value steps will be taken to disclose the fair value in the financial statements. | Should be comply with the Sri Lanka Accounting Standards. |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
A loss amount of Rs. 834,124 identified when replacing the steel racks which were not up to the standard placed at stacking shed Kaldemulla has been accounted as partly constructed buildings at Kaldemulla Furniture Complex..	A committee was appointed to look in to this matter and the said committee has identified the loss as Rs. 340,932/-. Accordingly steps have been taken to recover the said amount from the relevant officers from the month of April 2019.	Accounting should be done correctly.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Comments of the Management	Recommendation
Construction of dual quaters accommodation at Keppetipola Complex has been shown as a working progress of building.	Rs. 2,035,694	File not furnished to the audit	As the contracts has commenced in the year 2011 this was forwarded to the Keppetipola Region to get the required information. Once the information is received the steps has been taken to forward the same forthwith.	Duly updated information pertaining to constructions of the Corporation should be maintained by the Engineering Division.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observations	Comments of the Management	Recommendation
(a) Rs. 10,833,500 being advances allocated for the Sites during the time period from year 2013 to 2017 and Rs. 1,142,000 given prior to year 2013 has not been settled up to April 2019.	Action Will be taken to recover Action will be taken to recover in the future.	Steps should be taken regarding the unsettled advance monies in terms of the Financial Regulations
(b) Although more than four years has lapsed steps has not been taken to recover the receivables amounting to Rs. 11,871,954 from a private company from the year 1983, Rs.207,910,689 from Government and semi government Institutions Rs. 1,687,042 from a private institution and Rs. 777,353 from two individuals.	The delay when recovering monies from government institutions is the reason for this. Steps will be taken to recover the monies due from private customers through the sales division.	Steps should be taken to settle the debtor balances legitimately

<p>(c) Corporation has not taken steps to recover from Ministry of Mahaweli Development and Environment and Department of Forest Conservation the outstanding Electricity, Water charges and Building rent are Rs.1,661,487 and Rs.31,333,241 respectively.</p>	<p>Out of the monies due from Ministry of Mahaweli Development and Environment and Department of Forest Conservation from the year 2014 the Forest Department has not paid the building rentals. The water and electricity charges were being paid as scheduled and the monies due for the last months of 2018 had been paid in the year 2019.</p>	<p>Should take immediate steps to recover the due charges and rent</p>
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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<p>Financial Regulation 571(2)</p>	<p>More than two years exceeded Gang Nail Deposits of Rs. 1,258,635 from 2 to 5 year time period exceeded opening deposits Rs. 133,800, contract retention Rs. 2,513,001 and tender deposits Rs. 7,783,104 were not taken in to revenue as per financial regulation 571(2)</p>	<p>Because of the legal proceedings pertaining to the deposits of Chapelton Estate Nuwara Eliya it was not released up to now. Steps will be taken to take the balance deposits which have been kept as it is for a long time in to the custody of the corporation</p>	<p>Should follow the financial regulations.</p>
<p>Urban Development Authority Act No. 41 of 1978</p>	<p>Although the construction of the Anuradhapura Regional office building had commenced on 15th November 2017 as at 03rd December 2018 the approval for the relevant plan has not been obtained from the Urban Development Authority.</p>	<p>The relevant documents pertaining to the approval of the office building of the Anuradhapura Regional Office was sent to the Secretarial Office on 19th April 2017. Steps have been taken to obtain the said approval in the future.</p>	<p>Steps should be taken to obtain the complete approval in terms of the provisions of the act.</p>

1.8 Non-compliance with Tax Regulations

Audit Issue -----	Management Comment -----	Recommendation -----
According to the financial statements payable Nation Building Tax and Value Added Tax balance was Rs. 59,871,133 but according to the relevant tax records it was Rs.63,841,605. Hence a deficit of Rs. 3,970,472 was observed.	As at 20 th January 2019 all the tax payable for year 2018 has been paid before the preparation of financial statements. That is the reason for this deficit. Required adjustments are done between the sales in the monthly tax records and sales amount contained in the ledger. Therefore there can be minor changes between the sales amount contained in the ledger and the monthly records. But we are pleased to inform that VAT and NBT on the full sales amount of Rs. Million 4151 contained in the financial statements of year 2018 VAT and NBT Tax have been fully paid. Therefore VAT tax has been paid on Rs. Million 4152 according to the VAT tax records and NBT tax has been paid on Rs. Million 4152 according to NBT Tax Record.	The financial statements should be prepared correctly including the tax related to each year.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 672,432,854 and the corresponding profit in the preceding year amounted to Rs. 966,804,360. Therefore a deterioration amounting to Rs. 294,371,506 of the financial result was observed. The main reason for this deterioration is the reduction of the operating income of the Corporation by 30 per cent.

Out of its objectives the Corporation has not taken steps to achieve the objectives of agricultural production and Cane importation. In addition the Corporation has not achieved the expected level of production and sale of Timber related products. The rail timber exports have also not been done during the year under review. Although the exporting of Timber related finished goods and partly finished goods are also one of the objectives of the corporation the steps has not been taken by the Corporation to achieve that objective.

2.2 Trend Analysis of major Income and Expenditure items

Profit before tax of the Corporation has deteriorated by Rs. 294,371,506 compared to the preceding year and by percentage wise it is a 30.4 per cent decrease. The main reasons for this deterioration are the reduction of the trade income by Rs. 184,754,000 or by 4.3 per cent and the reduction of the operating income under the category of other income by Rs. 29,964,339 or by 29 per cent as observed by the audit.

2.3 Ratio Analysis

Considering the liquidity ratio of the Corporation during the period under review the Corporation's current ratio is at 1: 4.33 and the quick ratio is at 1: 2.78. As they are showing a higher value the Corporation is in a great financial position. But it was observed that as there is a deterioration of the stock turnover ratio compared to the preceding year from 1.81 to 1.25 there is a tendency of a reduction of the sales income of the Corporation

3. Operational Review

3.1 Management Inefficiencies in contract

Audit Observation	Comments of the Management	Recommendation
The construction of the Anuradhapura Regional Office building and quarters has to be completed by 21 st March 2018 it was not done so. Although the said period had been extended till 25 th August 2018 the construction was not completed as at 03 rd December 2018. Accordingly after 25 th August 2018 altogether late fines of Rs. 1,500,000 as Rs. 15,000 per day should have been charged, steps, have not been taken to recover the same. Rs. 375,000 has been expended as office lease rentals due to the non completion of the construction in time. The Contractor has not taken steps to renew the performance bond and the insurance policy.	The contract Company has informed that the contract has been completed on 25 th August 2018. It is further inform After the said date fixing and polishing of doors and windows which were carried out by the Corporation.	Should take steps to minimize financial losses by completing the constructions and contracts according to the period of agreement.

The construction of the office complex of the Padiyathalawa Depot commenced on 13th September 2017 has not been completed as at 31st December 2018.

Although the cost of the office complex of the Padiyathalawa Depot amounting to Rs. 1,976,336 has to be included in the capital expenditure inadvertently it has been accounted as partly constructed. Steps will be taken to rectify this in the year 2019

Construction and contract works should be completed within the due time.