

Colombo Commercial Fertilizers Limited - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Colombo Commercial Fertilizers Limited (“Company”) 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 reported 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 Company 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 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 Institute 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 scepticism 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 Institute;
- 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 observations are made.

Non compliance	Comment of the Management	Recommendation
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(a) The operating profit had been overstated by Rs. 2,396,566 through adjusting the said amount as prior year adjustments to the operational profit in the statement of cash flow.	Action would be taken in the future to rectify these accounting deficiencies.	Cash flow statements should be prepared by considering the actual cash flow related to the year.
(b) Receivable naval and container deposits amounted to Rs.550,785 that had been received by the Company was brought to accounts as payable deposits rather than deducting from the receivable in accounting. Therefore, the balances in deposit account receivable and payable had been overstated by that amount.	Action would be taken in the future to rectify these accounting deficiencies.	The officers should supervise the recording in the relevant notes.
(c) Even though the interest receivable for a fixed deposit amounting to Rs.66,840,000 invested in the People's	Action would be taken in the future to rectify	The interest income to be received should be accurately identified and

bank was Rs. 3,346,578, the amount had been brought to accounts as Rs. 3,735,715 and as a result, interest receivable and interest income had been overstated by a sum of Rs.389,137.

these accounting brought to accounts. deficiencies.

- (d) Even though the interest received for investing money in a fixed deposit by the Company within the year 2018/19 was Rs. 290,570,503, the amount had been brought to accounts as Rs. 292,169,647 and as a result, interest income received had been overstated by Rs.1,599,144.
- (e) Though the land where the Colombo Commercial Fertilizers Ltd. located, was possessed by Kelaniya Divisional Secretariat, the value of the land amounted to Rs. 9,000,000 had been brought to accounts by considering the land as an asset of the Company and thereby, the value of fixed assets had been overstated by that amount.
- (f) Even though the payment of taxes in the year under review was Rs.150,827,298, an amount of Rs.145,557,560 had been stated as cash flows under operational activities in the statement of cash flow and thereby, payment of taxes had been understated by an amount of Rs.5,269,738.

Action would be taken in the future to rectify these accounting deficiencies. The interest income to be received should be accurately identified and brought to accounts.

Necessary action is being taken expeditiously to transfer the possession of the land in favour of the Company. Action should be taken to indicate the land as assets owned by the Company subsequent to transferring the possession of the land in favour of the Company.

Action would be taken in the future to rectify these accounting deficiencies. The Management should take responsibility to prepare financial statements with accurate values in the preparation of financial statements.

1.5.2 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not provided	Comment of the Management	Recommendation
(a) Trade Debtors	89,021,859	Balance Confirmation letters	Since balance confirmation letters had not been received, necessary action would be taken by paying attention to that matter.	Necessary arrangements should be made to present balance confirmation letters to the Audit.

(b)	Balances Receivable from the Treasury	11,404,282,749	Balance Confirmation letters	Even though the General Treasury had been notified to provide the balance confirmations in relation to these balances, a due result had not yet been received.	Necessary arrangements should be made to present balance confirmation letters to the Audit.
(c)	Balances of Debtors	159,897,018	Balance Confirmation letters	Balance confirmation letters had not yet been received.	Necessary arrangements should be made to present balance confirmation letters to the Audit.

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

Instances of non-compliances with provisions of Laws, Rules and Regulations observed at audit test checks are analyzed and mentioned below.

Reference to Laws, Rules and Regulations	Non -Compliance	Comment of the Management	Recommendation
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(a) Public Finance Circular No.2014/01 of 17 February 2014	In terms of the Circular, an Action Plan had not been prepared by the Company for the year under review.	The Action Plan is being prepared at present.	Action should be taken in compliance with the Circulars.
(b) FR 375 (5) amended by Public Finance Circular No. 03/2015 of 14 July 2015.	Even though the ad hoc sub-impressts obtained should be settled within 10 days immediately after the completion of the purpose, the ad hoc sub-impressts totaling Rs. 795,565 obtained in 43 instances by 14 officers of the Company had been settled after delays ranging from 10 days to 89 days from the completion of	The strengthening of the internal controls system required to minimize this situation in the future will be implemented.	Action should be taken to settle the advances obtained immediately after the completion of the purpose.

the purposes.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 147,640,231 and the corresponding profit in the preceding year amounted to Rs. 193,532,284. The profit after taxation had reduced by Rs. 45,892,053 when compared with that of in the preceding year. The major reason for the reduction in profit was the increase in selling cost.

3. Operational Review

3.1 Procurement Management

Audit Observation

The Company had allocated a provision of Rs. 100 million to construct a stores complex with the capacity of 6,000 tons in Hambantota and accordingly, the relevant initial functions had been carried out during the year under review. The following matters were observed in this regard.

- (i) Even though the procurement process has to be adopted in a way that the Government derives the maximum economy, efficiency and productivity in terms of the Procurement Guidelines, the contract method of Design and Build which is used in the complex constructions had been adopted in the construction of the aforementioned stores complex.

Comment of Management

The Competitive bidding procedure had not been excluded here and Design and Build system had been selected under double / multiple stage envelope system as the system of calling bids.

the Recommendation

Action should be taken to derive maximum benefits to the Government in compliance with the Procurement Guidelines and provisions mentioned in Circulars.

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| (ii) | Even though Technical Evaluation Committee had to be appointed as per Section 2.8.1 (b), the Technical Evaluation Committee had been appointed in April 2019 for the evaluation of the bidding documents that had been prepared in December 2018 by the Consultancy Institute. | A delay had occurred in these activities as an officer with specialized knowledge had to be appointed and a Chairman was not present in our Company during the period of this December to April 2019 to carry out the functions of the Company. | Action should be taken to derive maximum benefits to the Government in compliance with the Procurement Guidelines and provisions of the Circulars. |
| (iii) | Even though a member who is knowledgeable in the subject matter of the contract under consideration should be included in the Procurement Committee in terms of Section 2.7.4 of the Procurement Guidelines, a member with a specialty in the subject of construction of buildings and procurement activities had not been included in the Committee for selecting Consultants appointed by the Secretary of the Ministry. | The former Chairman had functioned in the capacity of a Qualified Architect and had included as a member in the Committee with a specialty in the subject. | Action should be taken to derive maximum benefits to the Government in compliance with the Procurement Guidelines and provisions of the Circulars. |
| (iv) | The contractual activities had been suspended since the selected methodology had not been in compliance with the provisions of the Procurement Guidelines and the consent cannot be given to the selected Consultancy Institution in accordance with the Report of the Technical Evaluation Committee dated 08 April 2019. Accordingly, the amount of Rs. 564,715 paid to the Consultancy institution had become an idle expense. | The majority of the Committee had given their consent as per the Report of the Technical Evaluation Committee dated 08/04/2019 and this Contract had been suspended owing to the opinion and explanations made by the Engineer (Director) appointed by the Ministry. | Action should be taken to derive maximum benefits to the Government in compliance with the Procurement Guidelines and provisions of the Circular. |

3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) It had been informed through the letter of the Director General of the Department of Development Finance dated 05 October 2018 that it is required to settle the interest charged by the Bank due to the delay in payment pertaining to the letters of credit opened for the Fertilizers Limited. However, the Company had paid the amount by deducting the amount to be paid to the General Treasury from the interest of Rs. 101,801,619 that should be paid to the Bank by the Company during the year under review. Further, the company had to pay a large amount of money as interests due to the negligence of the officers though it was the responsibility of the relevant officers to make payments duly in the year under review.	Even though the audit had mentioned that the Company had incurred an interest of Rs. 101 million, the deprivation of Rs .100 million to the Company as the interest from fixed deposits due to the utilization of the fixed deposits owned by the Company had not drawn the attention of the audit. All the expenditure incurred for the clearance of fertilizers from the harbour was paid by utilizing the fixed deposits. Accordingly, if fixed deposits were utilized as indicated by the audit, it will be a great impact on the working capital of the Company and it will be a great risk for continuous distribution of fertilizers which was the role performed by the Company.	The payments related to the letters of credit should be made in accordance with the instructions issued by the Department of Development Finance and action should be taken to effectively invest the money of the Government.
(b) Even though action had been taken to transfer the land where the offices of the Company located, to the Government in the year 1997, the Company was unable to receive the lawful possession of the land for the Company even by the end of the year under review.	Action is being taken expeditiously to transfer the possession of the land to the Company.	Action should be expeditiously taken to transfer the lawful possession of the land to the Company.
(c) A qualified valuer had valued the land where the Company is located, which is an asset owned by another institution, in carrying out valuation activities of the fixed assets of the Company and	The approval of the Cabinet of Ministers bearing No. CP/14/1224/536/030 of 01 October 2014 had been granted as a result of the role performed for transferring the lawful possession of the land to the Company.	Action should be expeditiously taken to transfer the lawful possession of the land to the Company.

therefore, the Company had to pay the value the amount for the valuation of the land.

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| (d) Even though the preparation of a Corporate Plan for a minimum period of 03 years and operating the business to accomplish the proposed targets are the responsibility of the Board of Directors since business activities of the public Enterprises have to be managed with a short –term as well as long term vision, the Company had not prepared such a Corporate Plan. | Action is being taken in collaboration with an institution to prepare the Corporate Plan and the plan will be implemented for 3 ensuing years. | The Company should prepare the Corporate Plan and action should be taken accordingly. |
| (e) The Company had to pay a commission amounting to Rs.2,229,079 too in converting the value in to a loan by the relevant banks as arrangements had not been made to settle the letters of credit opened for importation of fertilizers on the due date. | A percentage of interest amounting to 8% is saved to the Company by converting the value of letters of credit in to a short–term credit at the rate of 14 per cent by the General Treasury until the Treasury settles the value of credit bills in order to settle the letters of credit opened for the importation of fertilizers. Further, the Bank obtains a commission of 0.001% on the basis of the value of credit bills in converting the value of bills to short-term loans and the Audit had merely pointed out the commission amounted to 0.001% charged out of the total value of credit bills. | Action should be taken to spend government funds effectively and efficiently. |
| (f) Twenty thousand and five hundred fifty six (20,556) items amounting to Rs. 2,548,619 purchased during the year 2017 and during the previous years were remained idle in the stores due to not purchasing the items after accurately identifying the requirements of the Company. | Items of stationery that are not being used presently are also included in this value and action would be taken to dispose such stationery. Action will be taken to identify and to dispose the items that are used for machines and equipment which are no longer in use. | Action should be taken to accurately identify the items required by the Company and necessary action should be taken for that purpose. |
| (g) Even though there was an unidentified income reserve amounting to Rs.61,016,519, which has been brought forward from the year 1997, the Management had not taken action | A difference of credit balance amounting to Rs. 237,451,803.55 was created as per the accounts prepared by the Committee appointed for computing the initial balances of the current assets and liabilities of the Company in the process | Necessary action should be taken to identify unidentified income reserves and to settle such reserves. |

to identify it and to settle it even by the end of the year under review.

of taking over the Company to the Government again on 20 January in the year 1997 and it was called, "Rehabilitation and Revaluation Reserve". An amount of Rs.61,016,519 had further being saved after writing off an amount from this reserve. Further, action would be taken to write off the surpluses created in the sale of assets, liabilities and fixed assets that would be identified in the future through this reserve.

(h) Despite the call deposits amounting to Rs. 186,132,368 invested for a short period such as 03 months were available for the Company for obtaining money in financial contingencies, the Company had obtained an amount of Rs.100 million, invested in a fixed deposit for a period of one year at the annual interest rate of 12 per cent, two months prior to the maturity of the fixed deposit and thereby, the Company had been deprived of an interest income amounting to Rs. 8,745,205.

The call deposits were kept as securities for opening the letters of credit and as a result it was not possible to use those call deposits to settle the letters of credit. Therefore, the fixed deposit bearing No. 226-60-01-00010419-2 amounting to Rs. 100 million which was readily available on the requirement was used to settle the aforementioned credit bill.

Action should be taken to use the money of the Government with the maximum productivity.

3.3 Human Resources Management

Audit Observation

An officer had been appointed for acting in the Post of Marketing Manager with effect from 04 April 2016 without making arrangements to appoint a qualified officer for the Post of Marketing Manager which remained vacant from the year 2016.

Comment of the Management

Even though action had been taken to appoint a qualified officer for the Post in several instances, an officer with qualifications had not applied. Action is being taken again to invite applications to recruit a qualified officer.

Recommendation

Action should be taken in compliance with the instructions of Circulars.