

## **Ceylon Fertilizer Company Limited – 2019/2020**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Ceylon Fertilizer Company Limited for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 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 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 Company as at 31 March 2020, 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 Company 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 Audit Scope (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 Company ;
- 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
Transactions could not be compared on daily basis due to total of one month transactions is being accounted in the ledger instead of copying each transactions recorded in the cash book to the ledger on the relevant day and the journal vouchers have been prepared for the collection of large number of transactions.	Instead of the current system, future transactions will be copied to the ledger separately and the ledger will be presented to the audit along with the accounts.	The transactions that are taken place should be copied to the ledger in daily basis.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>a. The types of fertilizers directly purchased by the Company are subjected to various processes within the company such as marketing, mixing, processing in to small packets, repackaging and switching among individual types within the company. Although the closing stock has been calculated by including the figures that was subjected to the aforesaid processes in relation to the direct fertilizer purchased during the financial year, the profit for the year</p>	<p>As mentioned in the audit report of the above paragraph, since the physical verification in closing stock reports was done with the participation of the Government Audit Division, it is stated that the closing stock has been recorded accurately at the time of cost of sale calculation and there by accuracy of the cost of sale also confirmed.</p> <p>All fertilizer purchases received by the company will be entered in to the stock book by a GRN card as soon as it reaches the relevant warehouse and adjustment will be made to the stock book at the same time of re-sanding, mixing and packet processing. This process of the company mainly takes place only from the Store in Hunupitiya and storage complex in Polonnaruwa.</p>	<p>Action should be taken to adjust the stock shortage when calculating the cost of sale.</p>

under review had been understated by Rs.5,085,500 approximately due to a stock shortage of 101.7 metric tons of fertilizer identified in the stock count had not been matched to the cost of sale.

**b.** The company is being followed the procedure of, all goods purchased for the use of the company are accounted in the consumer goods account and delivered to the warehouse and it is identified and accounted as the assets or expenses at the time of the goods are issued to the relevant divisions by the warehouse. There was a shortage of Rs.1,978,401 in the consumer goods account during the financial year and the value of those shortages had been accounted to the assets and expenses accounts instead of investigating deficiencies and recovering from responsible parties.

**c.** The total value of non-current assets had been increased by that amount due to the land at Hunupitiya, Wattala where the head office is located has been revalued to Rs.1,868,965,707 and reported as Non-Current assets in the financial statements without having

Information on all transactions taking place in this warehouse complex was submitted for audit and the government auditors also participated in the stock verification. Accordingly, the physical inventory was calculated after balancing the inventory books in all these stores. Therefore, it would like to point out that the accuracy of the cost of sale has been confirmed.

Even though, it is accepted that the shortage of inventory of the consumer goods account has been accounted as assets and expenses in the final accounts, it would be informed that there has been no any actual shortage in fact. What happened here is, the difference shown as a shortage that arises due to the process that company has used i.e. the issue of consumer goods has been made on an average cost basis apart from the FIFO method and only the stock has been accepted without mentioning any value when the remaining consumer goods return to the warehouse. This will be fully rectified in the coming financial year and when the remaining consumer goods issued from the warehouse are returned to the warehouse, action will be taken to adjust these stocks as separate used stock instead of matching consumer goods to the inventory account. As well as the inventory sheet of consumer goods will be maintained in FIFO method.

There was a cabinet decision as a Presidential grant and accordingly, the deed was sent by the Land Commissioner General as a 2008 Presidential grant. As well as the deeds has been received as a separate deed belonging to the Kelaniya Land Registry and a separate deed belonging to Wattala. These deeds were issued a month ago. However, the lands are not registered with the Land Registration Office. The

The officers who responsible for the shortage should be identified and recovered from them.

The legal ownership of the land should be transferred and stated in financial statements.

any legal acquisition to the Company.

action will be taken to these undertakings disclose in the final accounts and will be included in the revised account.

- d.** Although the company does not have a legal title to the 28 perches of government land under the Kelaniya Divisional Secretary acquired by the Road Development Authority for the Colombo - Katunayake Expressway, the current asset had been overvalued due to accounting of recoverable claim for that part of land amounting Rs.12,600,000.

Even though the Road Development Authority (RDA) has assessed Rs.12.6 million as compensation and stated that the relevant payments will be made to the our company, the payment will be made once the legal ownership of the above land is confirmed. Therefore, the amount has been accounted as a receivable amount since the relevant amount should be received after registering the deeds of the land. However, after taking in to consideration facts in the audit report, the action will be taken to disclose in notes to the account and submit.

Confirmation of legal ownership of the land and disclose the compensation to be received in notes to the accounts.

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Receivables**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p><b>a.</b> The payment had been settled through a short- term loan obtained from the bank due to non-receipt of funds from the General Treasury to pay for the company's fertilizer suppliers on time. Although the sort-term loan was later converted into a long-term loan subject to the Treasury's liability, due to the failure in making agreement with the Treasury to recover the interest paid on the short- term loan and failure to incorporate the short term interest in to long term loan, the Rs.268,732,450 sort term loan interest which was not guaranteed by the Treasury had been accounted as a balance to be received from the Treasury.</p>	<p>It should be act on the decisions of the General Treasury regarding the interest payments to be made on the loan facilities provided to the company through the intervention of the General Treasury for the implementation of the Government Fertilizer Subsidy program. It is practically unable to convert the interest payable on term loan into a term loan again. Further, a document confirming the payment of interest has been submitted to the company by the relevant bank and a letter has been submitted to the General Treasury requesting the interest with above document. Therefore short-term loan interest is treated as a receivable by the treasury and final accounts were prepared.</p>	<p>Action should be taken to ensure the accountability from the General Treasury.</p>

- |   |   |   |
|---|---|---|
| <p><b>b.</b> Although the accounts should be kept after deducting the value of the relevant stock deficiency of fertilizer from the invoice value of the supplier in the cases where supplier has given less than the agreed amount by both parties in the importation of the fertilizer, the value of the supplier's invoice was accounted as purchases and the value of the sent stock was accounted as the balance due. The Rs.16,861,511 of total value of inventory which was received less than the invoiced amount had been accounted as receivables and the outstanding balance of receivable was Rs.6,398,762. Due to the aforesaid balance had not been settled with the balance to be paid to the relevant supplier and accounted, thus this balance had to be paid to the supplier by short-term bank loan and an additional loan interest expense was incurred and dummy receivables had been shown in the accounts.</p> | <p>After opening the letter of credit, the bank will release money to the supplier based on the commercial invoice and bill of lading. However we will charge the supplier for the difference which is occurred at the time of actual inventory received are certified by the port and if there are any bank fees to be charged from now on will also be charged from the supplier.</p> | <p>Only the amount of fertilizer received should be taken into account.</p> |
| <p><b>c.</b> The balance confirmation letters of Rs.72,102,543 relating to trade debtors had not been submitted for audit.</p>  | <p>The evidence has been received from the accounts presented at this point will be submitted with the revised account report.</p>  | <p>Balance confirmation letters should be submitted for audit.</p>          |

**1.6.2 Payables**

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>The balance confirmation letters of Rs.4,636,187,820 and Rs.59,421,950 relating to trade creditors and sundry creditors respectively had not been submitted for audit.</p>	<p>The evidence has been received from the accounts presented at this point will be submitted with the revised account report.</p>	<p>Balance confirmation letters should be submitted for audit.</p>

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

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>a.</b>	Paragraph 8.3.3. of the Code of Conduct for Good Governance in public Enterprises issued with Public Enterprise Circular No. PDE/12 dated 02 June 2003.	Rs.49,940,295 incentive was paid to the employees during the year under review without any formal approval as per the incentive scheme approved by the General Treasury and the National Salaries and Grants Policies.	<p>The incentive for the year under review was paid by the money which is returned by the shipping company for expediting the unloading of ships arrived at the port. Once the fertilizer is unloaded at the port, the relevant shipping companies have provided us money for expedite the unloading and it has been distributed as an employee incentive with the approval of the Board of Directors. As well as it should be point out that; this has been distributed based on the money which has earned on the efficiency of the employees.</p> <p>As per the Public Enterprises Circular PED/12 dated 02 June 2003, it is mentioned that the state-owned companies has been allowed to making decisions on the payment of bonuses and incentives base on the profit of their institutions. Accordingly, in accordance with the relevant circular instruction regarding the payment of incentives, a letter was sent to the Board of Directors seeking the approval of the General Treasury. However due to the lack of response regarding this and the pressure exerted by the trade unions against the</p>	These payments should be treated as non-legal allowances.

- non-payment of the incentive, the incentive which has been paying for many years was paid with the approval of chairman.
- b.** Paragraph No. 5.1 of Paragraph 06 of the Code of Conduct for Good Governance in public Enterprises issued with Public Enterprise Circular No. PDE/12 dated 02 June 2003. Although the all public companies were required to prepared and submit the financial statements to the Auditor General within 60 days of the end of the financial year, the financial statements had been submitted to the Auditor General after 210 day of the end of the financial year.
- The accounts were delay due to curfew within the country during the Covid pandemic period and it should be point out that this was happened without our direct control.
- Action should be made to submit the financial statements to the Auditor General in accordance with the Circular provisions.
- c.** Circular No. PED/1/2015 dated 25 May 2015 and Section no. 3 of Circular No. PED/1/2015(i) dated 25 October 2016. On the decision of the Board of Directors, a fuel allowance of Rs.11,400.00 for 120 liters had been given to the manager (Procurement and Import) who does not have entitled to the vehicle allowances and, total of Rs.1,160,000 had been given to the 9 middle-level managers as Rs.10,000 fuel allowance per each officers by the
- As per the Public Enterprises Circular PED 1/2015, transport and fuel allowance cannot be paid to Mr.G.G.Saman who is the Acting Manager (Procurement and Import) since he does not have an vehicle. Nevertheless he entitles to official vehicle as he covers the duties of the post of manager (Procurement and Import). However, if a pool vehicle is used to be for him, it will have to be travel for four times per day from Hunupitiya to Bandaragama Bellanthudawa and back to from Bandaragama Bellanthudawa to
- These allowances should be treated as illegal expenses.



Circular provisions.

Hunupitiya. Therefore the management has decided to pay the minimum fuel allowance by taking into account the cost for a vehicle and the expenses raised on driver's overtime. Accordingly, Mr.G.G.Saman was paid the monthly fuel allowance of Rs.11,400.00 (120 liter\*Rs.95) which was the lowest fuel allowance at that time on the basis of approved 120 liters of fuel allowance for the first grade managers from the date of 01 December 2015 by the Board Paper of "Providing monthly transport allowance" to Acting Manager (Procurement and Import) dated 15 December 2015. According to the Public Enterprises Circular PED 1/2015, approval has been given to provide group transport facilities for middle level managers who do not entitle to the official vehicle. However the middle level managers of our company report to work from different regions and therefore company has to incur a huge cost in providing such group transport facilities. Thus, it was decided to pay Rs.10,000 per person as a transport allowance since the giving an allowance of Rs.10,000 is more profitable for the company.

**2. Financial Review**  
-----

**2.1 Financial Result**  
-----

The operating result of the year under review amounted to a profit of Rs.97,993,276 and the corresponding loss in the preceding year amounted to Rs.34,506,078. Accordingly an improvement amounting to Rs.132,499,354 of the financial result was observed. The reasons for this improvement were the increases in the sales income of fertilizer and the decreases in the cost of purchase.

**3. Operational Review**  
-----

**3.1 Uneconomic Transactions**  
-----

**Audit Issue**  
-----

Although the company does not have possibility in the current fertilizer distribution system to increase revenue through fertilizer marketing promotion except the supplying of fertilizer in the subsidized scheme to the Agrarian Service Centers approved by the National Fertilizer Secretariat for paddy cultivation, a non-economic expense of Rs.470,000 had been incurred for printing 1000 number of large and small umbrellas with the name of Ceylon Fertilizer. Part of this stock of umbrellas printed for marketing promotion was distributed free of charge to the company's employees and remaining 455 umbrellas were stored in the consumer goods store for a 16 months.

**Management Comment**  
-----

A torch, an umbrella and a raincoat have been provided each year for permanent wholesale officers and security guards in our company to facilitate their duties. This umbrella was replaced by an umbrella printed with our company logo instead of the usual market umbrella and distributed among them. As well as these umbrellas were printed and distributed free of charge to dealers as a low cost advertising campaign during the competitive open market fertilizer sales. As we already have the need to promote our company's Ceylon Fertilizer name in the market, our main objective is to take publicity by donating these umbrellas as a sponsorship to all employees and at agricultural related events at a very low cost. Therefor this is merely designed to protect our brand in the market and not an uneconomical expense.

**Recommendation**  
-----

Action should be taken not to incur expenses for the marketing promotion within the subsidy scheme.

### 3.2 Identified Losses

#### Audit Issue

Due to failure in distribution of subsidized fertilizer stocks with proper management, the 671.47 metric tons of fertilizer worth Rs.40,288,200 of previous financial year and 225.44 metric tons of subsidized fertilizer worth Rs.13,526,400 of the year under review were damaged as it cannot be distributed to farmers and the total loss had to incurred by the government was Rs.53,814,600.

#### Management Comment

The total amount of subsidized and non-subsidized fertilizer imported by our company for about five years is over 1,250,000 metric tons. Thus for a five years for various reasons,

i.e.

1. The excess Sweeping fertilizer from ships
2. The sweeping fertilizer removed from operations
3. The fertilizer damaged by natural disasters
4. The stock of fertilizer handed over to our company by the courts
5. The expired stock of fertilizer

In this way, the remaining stocks of fertilizer which were not released from the fertilizer warehouses are stored in a separate place in the storage complex. Due to storage space constraints regarding these fertilizer stocks, it was submitted to the Board of Directors and with the approval of the Secretary to the Ministry, arrangements were made to issue free of charge to government institutions such as Farms, Armed Forces, the Department of Civil Defense and the Prisons. After utilizing the maximum quantity available for mixing from these fertilizer stocks, our company does not have a suitable method to prepare the type of fertilizers by mixing

#### Recommendation

Action should be taken to act as not to incur loss to the company.

these fertilizers to chemical fertilizers in the form of organic fertilizer and also company does not have authority to produce such fertilizer as per the Fertilizer Stock Act. Further it can also be point out that even though a loss of Rs.53.8 million was mentioned; it was not due to the distribution inefficiency.

### 3.3 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>a. Two pamphlets were submitted by the Board of Directors dated 20 March 2020 and 25 September 2020 for payment of three months incentive on basis salary and cost of living allowance for the month of March 2020 based on the profit for the year and shipping clearance income. In both cases, although the Board of Directors has approved the payment of annual incentive not to exceed 60% of shipping clearance income, a three month salary was paid as an incentive based on the basic salary and cost of living allowance paid in March 2020 irrespective of shipping clearance income. The maximum amount of incentives approved for payment as per the decision of the Board of Directors is (dispatch money *60%=Rs.44,407,138*60%) Rs.26,644,282. However, Rs.23,296,013 amount had been paid as incentive without approval due to total value of Rs.49,940,295 incentive had been paid as non-compliance</p>	<p>The incentive for the year under review was paid by the money which is returned by the shipping company for expediting the unloading of ships arrived at the port. Once the fertilizer is unloaded at the port, the relevant shipping companies have provided us money for expedite the unloading and it has been distributed as an employee incentive with the approval of the Board of Directors. As well as it should be point out that; this has been distributed based on the money which has earned on the efficiency of the employees.</p> <p>As per the Public Enterprises Circular PED/12 dated 02 June 2003, it is mentioned that the state-owned companies allow to making decisions on the payment of bonuses and incentives base on the profit of their institutions. Accordingly, in accordance with the relevant circular instruction regarding the payment of incentives, a letter was sent to the Board of Directors seeking the approval of the General Treasury. However due to the lack of response regarding this and the pressure exerted by the trade unions against the non-payment of the incentive, the incentive which has been paying for</p>	<p>The payments that do not comply with the decisions of the Board of Directors should be treated as illegal expenses.</p>

with the decision of Board of Directors.

many years was paid with the approval of the then chairman. However as we have received clear instruction regarding the payment of this incentive, action will be taken to act as per the instructions in the future.

- b. Due to the failure in proper working capital management during the financial year by the management of company, it had been incurred an unavoidable loan interest of Rs.572,290 for a bank overdraft of Rs.66,858,564.

The banking of the company is done with the People's Bank and the Bank of Ceylon. Due to the strike at the Bank of Ceylon, Corporate Branch on 06 March 2020, the cash which should be credited to the bank on that date was not done. Accordingly the bank has credited the amount of Rs.565,530.41 to the company account as an interest of bank overdraft for that. This should be rectified by the bank as this is a bank overdraft interest which was generated due to a default by the bank. The bank has been informed in this regard by a letter dated 03 March 2021 and the bank has informed the company that the relevant arrangements are done for interest amount to be credited back to the Company's bank account. Therefore further inform that the working capital of the company has been well managed and this is a mistake made by the bank.

The actions should be taken to minimize the interest on loans.

- c. The approval of the National Fertilizer Secretariat had not been received for the issuance of 11,024.25 metric tons of TPS (due to failure of laboratory reports) related to 04 letters of credit imported during the financial year to the farmers. However, before the release of the laboratory reports, the company had distributed the above stocks of fertilizer to the farmers without approval. Although

Our company imports subsidized fertilizer to Sri Lanka and imported fertilizer delivered to the Agrarian Service Centers only in accordance with the plan provided by the National Fertilizer Secretariat. The National Fertilizer Secretariat should instruct the company to distribute such imported fertilizer only after obtaining the samples and verifying the quality and non-toxicity of the fertilizers. However, even sample of T.S.P. fertilizers imported in year 2019 were obtained by the National

Fertilizer should not be distributed among farmers without the approval of the National Fertilizer Secretariat.

the National Fertilizer Secretariat did not recommend the payment of fertilizer subsidy for aforesaid stocks of substandard fertilizer distributed to farmers by Ceylon Fertilizer Company, the company had taken actions to make payment for the fertilizer on the due date by the short-term bank loan and convert it into a long-term loan with the Treasury liability and obtain the subsidy without formal approval.

Fertilizer Secretariat, due to their difficulty in obtaining the relevant laboratory reports in due, with the promise of giving the sales approval (Marketing approval) in future that should be given to our company, it was instructed to provide this fertilizer to the Agrarian Service Centers so as not to create a shortage of fertilizer in relation to the available distribution plan that has been provided by themselves. In the same way, the company carried out this distribution of fertilizers considering the solid request made by the then Hon. Minister of Agriculture to issue fertilizer until the approval of the National Fertilizer Secretariat is received. After the officers who were instructed at that time were transferred to other institutions, the newly appointed officers submitted the laboratory reports regarding the T.S.P. fertilizers 13<sup>th</sup> months after the above distribution and informed that the aforesaid fertilizers were not up to standard. Although the Fertilizer Secretariat States that the fertilizer was given without approval, the National Fertilizer Secretariat should take all the responsibilities on that. Three responsible officers have been suspended in accordance with the investigation done for the identifying reasons regarding the failure of the laboratory reports on the stock of fertilizers received by our company and pass the laboratory reports on the same stock of fertilizer received by other companies which was in the same ship and by the same supplier. Accordingly, our company has taken steps to distribute the imported fertilizer stocks to the farmers and the farmers have already obtained the products using that fertilizer. The

company has requested the Treasury in terms of utilization cost and other expenses incurred on this as not to incur any loss to the company.

- d. Even the National Fertilizer Secretariat has instructed to reduce the supply of chemical fertilizers in the Nuwara and Nuwara Eliya districts by 25% and to provide organic and mixed fertilizers in order to reduce the use of chemical fertilizers and to popularize the use of organic fertilizers, the company had not formulated a formal program for the production and distribution of organic and mixed fertilizer.

In line with the Government's policies to reduce the use of chemical fertilizers and promote organic fertilizers, the Hyosung ONB company with the required quality and the appropriate prices to continue to supply the capacity we needed for provide to the market and as the company which is the only organic fertilizer manufacturing company approved by the National Secretariat has been selected. Thereafter a Memorandum of Understanding was signed with them and released the required granular fertilizer to the market from 2016. In addition, under the procurement process after being tested in the company laboratory, the several other companies were selected and the arrangements of issuing compost fertilizers as well as the organic liquid fertilizers as per the requirement of the market was continued by our company. Also, several rounds of discussions were held for a Memorandum of Understanding with the Institute of Urban Waste Management and arrangements were made to produce 20 metric tons of organic fertilizer in collaboration with Prof. Priyantha Yapa, University of Sabaragamuwa, Sri Lanka. However, we made priority to the distribution process in chemical fertilizer since the Cabinet decisions has informed that the Ceylon Fertilizer Company should sell only chemical fertilizer and the two institutions should merge and formulate an appropriate program. Nevertheless, it has been distributing organic granular fertilizers to date in

A program should be prepared for the production of organic fertilizer as per the instructions of the National Fertilizer Secretariat.

collaboration with Hyosung ONB institution and thereby company has fully contributed to the Organic Fertilizer Promotion Program of the Government.

- e. It had been imported 14,250 metric tons of Uriya from the MV Alby Meloty ship under account No. 2019/MOA/CRC/UR (G)/04/01 and purchase order No. 814. Fertilizer was unloaded from the ship and stored in a warehouse in Pethiyagoda, Kelaniya in agreement with the local agent of the supplier due to the stoning and discoloration of the manure in the ship and on the recommendation of an committee of inquiry appointed by the agreement of both parties it was stored at Hunupitiya Ceylon Fertilizer Company and then distributed to farmers. Despite the possibility of rejecting the fertilizer stock in the event that desired condition has not been met according to the agreement reached between the two parties, It was observed that the management of the company has acted without considering the essential procedures to be followed regarding the fertilizer stocks due to failure to inform the National Fertilizer Secretariat about the aforesaid transaction, not conducting a chemical test by the National Fertilizer Secretariat on the discolored and stoned fertilizer and not including a representative of

Arrangements were made to distribute the subsidized fertilizer after obtaining the laboratory report and sales approval from the National Fertilizer Secretariat ones obtaining samples of the relevant fertilizer while unloading 14,250 metric tons of Uriya received from Mv Alby Melady ship. During the operation of 8500 metric tons of Uriya, rain fell and the upper part of the fertilizer stock of the ship was got wet due to the delay in closing the cover doors of the ship and all operations were temporally suspended at that point. As the way that has been act in these kinds of situations in the past, an independent survey committee was appointed on behalf of the supplier and our company to obtain separate samples of the damage fertilizers and obtain laboratory reports as per the agreement. According to the laboratory reports, the percentage of water vapor in the manure packs of the upper part of the ship was slightly higher than the standards values and no damage was done to the fertilizer stock on the lower part. Until further investigation make on this issue, arrangements were done to unload the relevant fertilizer under the supervision of Company officers and store the relevant fertilizer in a leased outdoor warehouse on the agreement of receive all cost from the supplier considering the ship's late charges, Uriya requirement within the island and the due dates for receive fertilizer according to the procurement process. (The other

The non-standard fertilizer should not be imported, unloaded, stored and distributed.



the National Fertilizer Secretariat for joint inspections.

state-owned company of Colombo Commercial Fertilizer Company had also received a stock of Uriya from the same vessel and they have also followed the same process) Then the damaged stocks of fertilizer were identified and removed and the reprocessed fertilizer stocks were taken over and distributed to the farmers. The disposable fertilizer identified in the recycling process has so far been stored in a separate warehouse and the company has taken steps to recover the full cost and loss (13.32 million) from the relevant supplier. The Board of Directors of the Company was informed and obtained approval in this regards and informed to the Chief Accounting Officer of the Secretary to the Minister of Agriculture in writing. However after distribution of these stocks, no complaints have been received from the farmers regarding the quality of the used fertilizer.

- f. Although the total value of Rs.4,813,131 had been paid as an annual clothing allowance to Rs.10,530 for the warehouse worker and Rs.7,938 for the office worker, the legal provisions which were based for aforesaid payments had not been submitted to the audit.

The company does not provide uniform for its employees and therefore it has been paid as a clothing allowance since this company was operated as a corporation. Accordingly who work directly in connection with fertilizers will be paid more and relatively less for office workers annually. This allowance has been increased every two years from the period of commencement of payments by a certain percentage relative to the increase in the price to textiles in the market and payment was done with the approval of the Board of Directors. The approval of the Board of Directors can be pointed out as the legal basis and the payments of the year under review have been decided on that.

Allowances should not be paid beyond the existing rules and regulations.

### 3.4 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The continuous operating losses has been incurred due to fact that the company maintains 46 warehouses in various areas of the island without establishing a low-cost distributing system and without recognizing the need for warehousing and thereby non-essential increases in Salary, Administrative, Operations and transportation costs.</p>	<p>The 60% of government subsidized fertilizer requirement for Yala and Maha season is about 220,000 metric tons and in addition, about 50,000 metric tons for other crops subsidized fertilizers are distributed throughout the year. Accordingly, the storage capacity of the Hunupitiya main storage complex is about 67,000 metric tons while the storage capacity of 45 regional fertilizer stores is about 58,000 metric tons. Thus the total storage capacity is close to 125,000 metric tons. Depending on the nature of the rainfall received to the island, the dates of commencement in Yala and Maha season are sometimes cannot be predicted. The demand for subsidized fertilizer is determined based on that. However, these stocks of fertilizer are imported according to the relevant procurement plan as a state-owned company. In the cases where the rain is delayed and the fertilizers are not released in some seasons, external storage will also have to be obtained on a rental basis due to there was not enough space to store those stocks when the stock of fertilizer received to the island under the import plan. The audit also inquired about this at a time when there was an expense of Rs.4.8 million for a period of 3 months on a monthly rent of Rs.1.6 million for this in a previous year. Further company have taken into consideration the request made to obtain fertilizer without shortage by Divisional Secretaries, Government Agents, Agrarian Service Officers and Agrarian Organizations at the Divisional Agriculture Committee</p>	<p>The company should establish a cost-effective distribution system.</p>

meetings and season meetings and regional warehouses have been established on that basis for the purpose of fulfilling the responsibilities of the government. Accordingly, these warehouses has been established in a scientific manner covering all the Agrarian Services (375 Agrarian Services) within 30 square kilometers covering the whole island. This fertilizer distribution network which is not owned by any private or government agency has also been recommended as a strategic plan (a strategic resource owned by the government) for government policy making. Therefore it can be pointed out that, it is essential to maintain these regional warehouses.

### 3.5 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>Due to failure of laboratory test reports obtained regarding stocks of imported fertilizers, the company had taken action to recover 03 performance bonds of US\$ 589,587.5 for the 02 imported fertilizer companies. The suppliers had resorted to arbitration against it and, instead of take action to recover the loss by supplying fertilizer under standards after confirming that the relevant companies have not complied with the agreement before the settlement, the company had settled and repaid the performance guarantees recovered. This is observed as a matter of controversy.</p>	<p>The sales approval that should be given for the distribution has been delayed by the National Fertilizer Secretariat for a period of six months on the laboratory records of a stock of T.S.P which was imported for subsidized fertilizer in the year 2019. The farmers all over the island had to face a shortage of basic fertilizer (mud fertilizer) due to the above delay during that period. As well as the huge publicity was done in the media regarding the non-receipt of basic fertilizer to the farmers and the then Minister of Agriculture during a meeting on resolving the farmers' issues, orally instructed to issue the relevant T.S.P. fertilizer until receive approval in the future. Accordingly, action was taken to distribute these stocks of fertilizers and after 06 months, the National Fertilizer Secretariat decided not to grant the</p>	<p>An inquiry should be held against the officials who acted to reach the settlement.</p>

relevant sales approval stating that one ingredient (Lead) in the relevant chemical report was more than the required quantity. Three responsible officers of the National Fertilizer Secretariat have been suspended in accordance with the investigation done for the identifying reasons regarding the failure in laboratory reports of fertilizers received by our company from the T.S.P stock of the same supplier imported by the same ship by several companies and the passing the laboratory reports of other companies and the only option under the agreement with the supplier was to withdraw money from his performance bonds until the end of the investigation. Accordingly, the supplier proceeded with the settlement process and released the performance bonds to the relevant company again on legal advice that the company was in a legal disadvantage due to the delay in the laboratory reports and the completion of the relevant stock of fertilizer. Further, the company taken this decision on the legal advice that the settlement will be disadvantage to the company, high arbitrations fees to be borne and also the written instruction given by the secretary to the Ministry to take appropriate administrative decision so as not to incur any loss to the Government as a result of the arbitration fees incurred for this settlement. The company expects to act on the results of further investigations in this regard.

### 3.6 Idle or underutilized Property, Plant and Equipment

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although the Company has a laboratory with laboratory equipment worth Rs.19,130,944 registered with the Sri Lanka Accreditation Board, the number of sample tests conducted during the year under review was 69 and the revenue earned during the year was Rs.278,730. No strategic plan has been formulated and implemented to generate revenue from this laboratory and as a result, it was observed that the resources available in the laboratory were underutilized.	The Cabinet approval has been obtained to take over the laboratory owned by our company to the Ministry and establish it as an independent institute to test the quality of all fertilizers imported to Sri Lanka and also the process has been already commence.	Laboratory equipment should be used to maximize the productivity.

### 3.7 Procurement Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>a.</b> As per the agreement entered in to with the suppliers of fertilizer, since all cost applicable to the stock of imported fertilizer up to the container yard has been included in the price offered by the suppliers, file fees, container washing fees, taxes and stamp duty to be borne by the local agent of the supplier. However, due to the transfer of the aforesaid liabilities to a shipping agency which is the responsibility of supplier, the total value added over the last two years of Rs.4,222,578 has been paid for non-applicable expenses.	Fertilizer is imported from containers under CFRCY (inco terms). Accordingly, the cost of fertilizer, the cost of transporting the goods to the port, the cost of retention in the container yard and the return to the relevant agents should be borne by the relevant supplier. The cost of clearing the container and the cost of restoring the container when importing the fertilizer should be borne by the buyer institution (Consignee). Thus, this cost was borne by our company as we have to bear the cost of restoration and delivery of the containers which were carried the goods.	The payments should be made in accordance with the agreement entered into with the supplier.

**b.** Due to insufficient subsidized fertilizer for distribution of paddy during 2020/2021 Maha season, to overcome that shortcoming, Uriya 3500 metric tons had been obtained on loan basis from suppliers of fertilizers for other crops. And also, there was an opportunity to misuse of government fertilizer due to aforesaid stock of fertilizer had been handed over to the Agrarian Services Center with the company's packages without being designated as subsidized fertilizer provided by the government and in the name of Ceylon fertilizer Company.

The chemical fertilizers distributed to farmers of paddy under the government subsidy scheme will sometime not reach to the company as planned due to ship delays and cancellation of some tenders. In such cases, from stocks of subsidized fertilizers for other crops in private companies on the basis of exchange will be obtained and issued to distribute the chemical fertilizer to farmers of paddy without any shortage with the approval of the Director, National Fertilizer Secretariat, the Secretary to the Ministry of Agriculture and the Board of Directors. When the repacked in the bags which has been printed the Ceylon Fertilizer Company logo, the company will have to spend an excess amount around Rs.2,125 per metric ton. Accordingly, since an additional Rs.7.4 million will be cost for 3500 metric tons, the Director General of the Consumer Affairs Authority was informed about this incident and the distribution of this stock of fertilizer only to the farmers named in the Farmers' Registration will be done under the proper supervision as per the distribution plan approved by the Commissioner General of the Agrarian Services Department. Therefore it should be informed that the possibility of misuse of subsidized fertilizer will be avoided.

Action should be taken to make successful the ongoing investigations and such fraud should be prevented from recurring.

**c.** Not in accordance with the provisions of the Procurement Guidelines and the Agreement that has been made between a local supplier and the Ceylon fertilizer Company on the supply of liquid fertilizer, the management of Ceylon fertilizer had provide opportunity to company of local supplier to use their two fixed deposits of Rs.94,438,766 in 2018 as bank guarantees to obtain bank overdraft. Using this guarantee, the local supplier had obtained a bank overdraft facility of Rs.75,980,000 by the 12 February 2019 and the total amount payable with the accrued interest on that day was Rs.80,502,290. As the Company of local supplier had not taken actions to settle the aforesaid bank overdraft, the bank had taken action to settle the outstanding loan balances from two fixed deposits held by the company as bank guarantees. Due to this informal and illegal transaction, the loss incurred by the Ceylon fertilizer company had been Rs.97.5 million with the loss of Rs.17 million interest incomes.

**d.** It was observed that, the 109,408 liters of expired fertilizer worth Rs.79,716,652 out of the liquid fertilizer provided as per the agreement reached between the Ceylon Fertilizer Company and a Company of local supplier on 17 April 2017 had been still in

The facts reported by this should be corrected as follows,

In 2018, the management had to use Rs.94,438,766 worth two fixed deposits held by the company as collateral due to, a bank overdraft facility of Rs.112.5 million had been provided using Rs.240 million worth fixed deposit as a collateral on 2017.04.28 and the actions had been taken to release that Rs.240 million fixed deposit. Subsequently, the deposits worth Rs.94 million mentioned in the report had been approved by the Board of Directors on June 2018 as collateral to match the balance of Rs.75,980,000 of bank overdraft. However, the separate investigations are being carried out against this fraud by the CID, the Presidential Commission of Inquiry and the Commission to Investigate Bribery or Corruption. The person who served as the chairman in 2017 has been presented in court by the CID and is currently out on bail.

Samples of the remaining 109,408 liters of liquid fertilizer in the Hunupitiya head warehouse at present have been obtained and a laboratory test has been carried out on the chemical composition of that liquid fertilizer. Although these stocks have expired, there is no significant reduction in quality

Action should be taken to prevent such losses and a decision should be taken after conducting an investigation into these losses.

Action should be taken to prevent such losses and a decision should be taken after conducting an investigation into these losses.

stock of the main warehouse in Hunpitiya by the March 2021.

according to the laboratory reports. Therefore, these will be restructured and sold to minimize the losses.

- e. Due to changing the company's advertising system of publishing the company's public advertisements by Lake House as, to allow newspaper advertising to be published by a private agency without a procurement process as per the request of the Chairman, the Company had to pay more than double the cost of publishing advertisements from Lake House in the previous. The amount paid to the aforesaid private institution for public advertisements was Rs.2,243,376 during the financial year.

All of the company's advertisements have been published by Lakehouse for many years as a policy of the company. After the appointment of Mr. Roshana Waduge as the new chairman, the advertising was posted by an agency on his instructions. However, advertising through the agency has been suspended since the beginning of 2020 and all advertisements have been published only in newspapers owned by the company of Associated Newspapers Ltd (Lake House)

Procurement method should be followed.

### 3.8 Human Resources Management

#### Audit Issue

- a. By changing the scoring system included in the company's approved recruitment procedure approved by the Department of Management Services, increasing the approved score for the performance in the interview from 25 points to 60 and decreasing points for the experience in relevant field which is most important to the post from 30 to 5 points, the management of the company had recruited 28 less qualified and less experienced persons in bias for the post of Management Assistance in year 2019 as make it much

#### Management Comment

The then management had used the relevant scoring system by an interview board and had ignored the scoring method included in the recruitment procedure.

#### Recommendation

An inquiry should be conducted and the injustice done should be rectified.



unfair to the qualified and experienced applicant who was eligible for the interview.

- b. Ceylon Fertilizer Company has been acting as the government agent for the issuing fertilizer for Paddy Cultivation from the date of implementation of the Pre- Subsidy Scheme and from that day, sales promotion and other marketing activities have been greatly reduced. Fertilizer is issued by the regional fertilizer stores on the instructions of the National Fertilizer Secretariat and, the activities such as the marketing activities in the field and the implementation of new marketing strategies and programs or marketing oversight are not included in the distribution process. Accordingly, instead of revising the approved cadre, the company has continued to fill the vacancies in the posts of District Marketing Promoters, Regional Marketing Promoters and Marketing Promotion Officers belonging to the approved marketing staff and also in the year 2021, recruitments were made on an acting basis for 03 posts of Regional Marketing Manager. As a result, the company had to incur idle cost for salaries and allowances.

As per the staff composition of our company, it has capacity to recruit up to nine Regional Managers. Necessary officers were recruited for these posts based on the sale of fertilizer under the competitive market. Three vacancies were occurred due to the retirement of three officers. It was recommended that the vacancies should not be filled in accordance with the management decisions and that it would be appropriate to fill those vacancies in the event of a competitive market situation in the future. Nevertheless in this regards, the trade union representatives continued to press for the appointment of acting officers from senior officers who currently serving as district sales agents. Finally this matter was discussed at length by a committee consisting of the Chairman, the Minister of State, the Secretary, the trade union representatives, the HR Manager and the General Manager of our company. In addition, the Minister of Agriculture has instructed in writing to appoint District Marketing Officers as Acting Officers and the action was taken to appoint three Senior District Officers to the relevant acting post with the approval of the Board of Directors until permanent officers are appointed since the field officers will be assigned a large number of duties under the Organic Fertilizer Promotion Program in the future.

The approved cadre should be revised as required and action should be taken to reduce salaries and allowance.

c. Without recruiting employees for the permanent posts vacancies approved for the year under review, the services of 12 casual employees had been obtained on the basis of re-employment by every six month and Rs.1,362,691 had been paid. As well as with the approval of the Chairman of the Company, 04 interns had been recruited and salaries and allowances of Rs.274,850 had been paid during the year under review.

Nine employees who were recruited for the vacant post of Store Assistant in Primary non-technical Service Category on contract basis in the year 2014 and the year 2016 have been employed to carry out the subsidized fertilizer distribution program implemented by the government in a systematic and efficient manner. According to the recruitment procedure, the employees who have fulfilled the relevant qualifications have been recruited to the permanent service on the basis of the results of the interview for the recruitment of store assistant conducted in the year 2019. And also two drivers were recruited on contract basis for the then Chairman and the Acting Director of the company and one driver for the State Minister of Agriculture. As well as by taking into consideration of the requests made by the Deans and Head of the relevant institution to provide training opportunities for undergraduates pursuing degree courses in state training institution such as the National Apprenticeship and Agriculture Training Authority and the Universities of Agriculture and also considering their academic needs, we will provide them with practical training within our institute for a period of six months as a social responsibility of our company. The company pays an allowance of Rs.500 per trainee for reporting day to training since the knowledge and skills of the trainees are a great help in enhancing the productivity of the organization.

Action should be taken to fill the vacancies in the approved permanent post.

d. It had been spent Rs.1,671,730 to involve the officers in workshops and training sessions during the year under review without an annual training plan prepared through an evaluation of the training recruitments and expected outcomes for the approved positions.

The training requirements are identified through the annual performance appraisal and action is taken to direct employees by giving priority to the training programs which should be given on the recommendation of the relevant divisional manager on occasion. As well as the executive officers will be given financial assistance as per the agreement for the post graduate studies to the long term professional development of the employees.

An annual training plan should be prepared and Officers should be participated in training session.

**4. Accountability and Good Governance**

**4.1 Effectiveness of Management Information System**

Audit Issue	Management Comment	Recommendation
<p>a. Although the sum of Rs.38,176,014 cost had been incurred from year 2017 to financial year for the establishment of an Enterprise Resource Planning System (ERP System), due to the fact that the aforesaid system was not installed to cover the entire organization and the entire process and, the systems that are installed and functioning are also operating without strong controls, the company had failure to reach the desired results from the installation cost incurred and the annual maintenance cost paid to the established firm which was approximately Rs.1,580,000.</p>	<p>All transactions and data are performed by this enterprise resource management software (ERP) system and 85% success can be identified from the overall system. The main problem regarding the remaining 15% performance of the system is, 24 warehouses do not connected with the system due to our company has not provided the required computer hardware facilities to those warehouses. Therefore, delay in getting information from those stores to the head office and delay in updating information have been led to these errors and the problem will be solved once the remaining 24 warehouses are networked. Currently, the Enterprise Resource Management Software System has completed the following functions:</p> <ol style="list-style-type: none"> <li>1. Pay Roll System</li> <li>2. Inventory Control</li> <li>3. Attendance</li> <li>4. Debtors</li> <li>5. Creditors System</li> </ol>	<p>The system should be set up to cover the entire organization and the entire process.</p>

The functions that are still incomplete is,

1. Accounting
2. Fixed Assets Control

These activities will be completed from next year and the entire system will be operationalized.

- b. Even though the entire process of fertilization, including the receiving, issuing and exchanging of fertilizer was computerized, the audit could not be satisfied with the computer system related to stock controls due to it has an ability to enter data into the computer system as updated the day before and essential general controls and system controls were not implemented.

The accuracy of the final inventory has been confirmed as the inventory was surveyed with the participation of the Government Audit Division at the inventory survey activities in the end of the year. However, the stock updates are done by the head office since most of the warehouses of the company maintain the stock documents in manual format without computerized system. While acknowledging that there is a slight delay in updating and it should be informed that the management has decided to computerize the remaining few warehouses of the company in near future to rectify that short coming as well. Thereby the action will be taken to provide the information of final stock report (to provide in more transparency) required for the audit.

Necessary general controls and system controls should be implemented.