

Ceylon Fertilizer Company Limited -2020/ 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Fertilizer Company Limited (“Company”) for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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 2021, 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 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) According to the Sri Lanka Accounting Standards 02, the closing stock of the year should be physically verified and accounted for at the lower of cost and net realizable value. Accordingly, a physical verification had been arranged in October 2021 with the external auditors; however the stock could not be physically verified due to stock not being packed so that stock verification can be done. However, as per the stock reports, the closing stock had been valued at Rs. 446,784,423 and stated in the final accounts and the accuracy of that was not satisfied for the audit.	The stocks received from the port during the Yala and Maha seasons should be cleared immediately. Our company will be lost the amount received in dollars as dispatch money income when such immediate clearance is not done. Due to that, the stock of fertilizer received from the vessels should be stored immediately in our limited storage facilities.	The closing stock should be physically verified as per the Sri Lanka accounting Standards 02.
(b) It had been stated in the accounting note No. 2.8.6 (h) that the company was disclosed a deficiency of 122.73 metric tons of fertilizer worth of Rs. 6,000,000. However, what are the types of fertilizers and what is the basis of the calculation of its value had not been explained and the profit of the year under review had been understated by Rs. 600,000,000 due to not adjusted the stock shortage to the cost.	Adjustments will be made in the next accounting year.	An investigation should be carried out to recover the loss and the deficiency of stock of fertilizer should be adjusted to the cost.

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| (c) | The foreign exchange loss which accounted was overstated by Rs.2,845,381 due to the calculation of foreign exchange gain and loss on different rates instead of the foreign exchange rates published by the Central Bank of Sri Lanka for each day. | It will be corrected in the next accounting year. | Foreign exchange gain and loss should be calculated based on the foreign exchange rates published by the Central Bank of Sri Lanka on daily basis. |
| (d) | Although the land with an area of 29.93 perches called Wariyapola Estate where the lakpohora warehouse is established in the Matale district was legally transferred by the Land Reformed Commission to the company on 10 September 2020 through a deed, the non-current assets had been understated in the financial statements due to the fact that the land had not been assessed and accounted | At the time of submit the final accounts,valuation adjustments had not been made for this land and it will be assessed by an assessor and adjusted to the accounts in the next year. | The value of the land should be assessed and accounted. |
| (e) | Although the income related to the 103 laboratory tests conducted by the company's laboratory to external institutions during the accounting year is Rs. 1,200,140, only the value of Rs. 693,406 received in cash during the year was recognized as laboratory income in the financial statements. Due to that, profit of the year had been understated by Rs.506,734 and current assets had been understated by that amount. | Adjustment will be made to the accounts in the next year | Accrued income should be properly identified and accounted by the company. |
| (f) | The bid security of Rs.172,500 received from a private company which was charged due to failure to provide proper workers for warehouses had not been accounted as income of the company and it was further shown as a current liability. | The bid security of Rs. 162,500 received from the private company will be adjusted to the income in current accounting year. | The bid securities specifically recovered should be accounted as an income of the company. |
| (g) | The total unclaimed retention amount of Rs.239,141 in relation to three contractors who provided services to the company by 31 March 2021 which exceeded 06 months had been stated as a payable balance without adjusting to the income or inquiring the related parties. | Necessary adjustments will be made during the next accounting year in relation to the retention amount of Rs.239,141 payables on behalf of three contractors who provided services to the company. | Overdue deposits should be credited to income if it is not claimed. |

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| <p>(h) The stationary, plumbing fixtures, building materials and auto spare parts included in consumables account in the accounting year amounting to Rs. 415,514 had been stated in the financial statements as other receivable instead of carrying out investigation regarding the deficiency and recovering from responsible parties.</p> | <p>The facts regarding the deficiency of consumables warehouse during the accounting year was checked and out of this Rs.2,010,196 was unissued fixed assets in the warehouses and some consumable items worth Rs.15,470 should have been included in the physical stock. Accordingly, the actual deficiency in the consumables warehouse was only Rs.415,514.</p> | <p>Investigation should be done regarding the deficiency and action should be taken to recover from those responsible parties.</p> |
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1.5.2 Receivables

Audit Observation

Although the credit balance of Rs.807,650 due from Palawatta Suger Company had been included in the receivables, such payable amount is not shown in the accounts of Palawatta Suger Company and Pelawatta Suger Company had been stated that all payments due to Ceylon Fertilizer Company had been paid. Accordingly, a formal investigation had not been conducted regarding the said loan balance and arrangements were not made to collect the money from them or write off from the books.

Management Comment

The credit balance of Rs.807,650 due from Pelawatta Suger Company was included in the accounts as a receivable. Accordingly, arrangements will be made to conduct a formal investigation in this regard in the next accounting year.

Recommendation

Receivable balances should be written off from the books on formal approval if those are uncollectible.

1.6 Accounting Policies

Audit Observation

The refundable bid securities of Rs. 274,000 over a period of 4 to 11 years had been stated as a current liability for a long time without taking to income on board approval.

Management Comment

The refundable bid security value of Rs. 274,000 held with the company for a period of 4 to 11 years will be adjusted and corrected against the income of current year.

Recommendation

Bid securities should be taken into income after confirmed it as the non-claims.

1.7 Going Concern of the Organization

Audit Observation

Although the permission had been given to re-import chemical fertilizer according to the Organic Fertilizer Policy introduced by the government as per the cabinet decision No. CP/21/0964/323/030 dated 08 June 2021 and

Management Comment

Although the company not having the permission to import chemical fertilizer from the year 2021, company had been contributed a lot to implementation of the organic

Recommendation

Appropriate decisions should be taken for the going concern of the company.

special gazette notice No. 2238/45 dated 31 July 2021, due to the fact that the Lak pohora Company not having the said permission, the main business activity carried out by the company had been lost from the year 2021. It had been observed that the going concern of the company was challenged due to lack of focus on new business opportunities that could ensure the going concern of the company.

fertilizer policy in the country. However, since the import of chemical fertilizers had been started again, there is no challenged regarding the going concern of the company.

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

Reference to Laws, Non-compliance Rules Regulations etc.	Management Comment	Recommendation	
Circular No. PED/1/2015 dated 25 May 2015 and Section no. 3 of Public Enterprise Circular No. PED/1/2015(i) dated 25 October 2016.	On the decision of the Board of Directors, an allowance of Rs.10,000 per month for ten officers belonging to MM 1-2 service category who do not belong to the categories of officers who can provide vehicle and fuel allowance and an allowance of Rs.40,000 per month and a maximum 125 liters of fuel allowance of for 08 officers who working as regional marketing managers of the same category had been given by exceeding the Circular provisions.	The provision had been included in Section no. 04 of Public Enterprise Circular No. 1/2015 to provide group transport facility for middle level managers (MM1-2). However, due to the practical difficulties caused by need to provide group transportation facilities for 09 mid-level managers of the company and those officers not being on the same road and at least 03 vehicles have to be used for that. Accordingly, an amount of Rs.10,000 per month had been paid as transportation allowance to per each officers as per the approval of the board of directors. An allowance of Rs.40,000 per month and a maximum 125 liters of fuel allowance of had been paid to a regional marketing managers as per the approval of the Board of Directors for performing duties efficiently, effectively and satisfactorily.	Action should be taken as per circular instructions.

1.9 IT General Controls

Audit Observation	Management Comment	Recommendation
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 42 regional warehouses of our company are active and out of that, 29 warehouses are connected with the head office and the data is updated in the system. For the rest of other regional warehouses, data should be entered into the computer system after the good received notes (GRN) and invoices of goods received by post or courier. Therefore, the facility to enter the data as updated on the previous date should be given subject to control in order to maintain the correctness and up-to-dateness of the data in the operation of our computer system. Otherwise, sales records, debtor/creditor age analysis reports, debtor and creditor control account reports, vouchers, stock control reports and final account reports are also cannot be obtained through the system.	Necessary general controls and system controls regarding the computer systems should be implemented.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 124,392,743 and the corresponding profit in the preceding year amounted to Rs. 97,993,276. Accordingly, an improvement amounting to Rs. 26,399,467 of the financial result was observed. The reasons for this improvement were the increases in the income of fertilizer and the decreases in the distribution cost.

3. Operational Review

3.1 Identified Losses

Audit Observation	Management Comment	Recommendation
(a) A shortage of fertilizer had been identified during an investigation conducted by the internal audit of the company at the Olumadu warehouse on 26 September 2019 and the stock keeper of the fertilizer warehouse had been dismissed from service and investigations had been carried out. A letter dated 24 November 2020 had been issued to the OIC of special crime investigation division of Mulativ by the chairman of the company informing that the above warehouse keeper was	The company has been adverted the complaint dated 2020.11.24 to the OIC of special crime investigation division of Mulativ to take action regarding the criminal offense related to the Rs.2,191,948.73 cash irregularity revealed in the audit conducted at the Olumadu Regional Fertilizer Warehouse. However, A complain had been re-adverted on 2022/05/02 due to the notification that, the area where the Olumadu Regional Fertilizer Warehouse	Formal and legal action should be taken to recover the misappropriated funds.

defrauded Rs.2,191,948 of government funds and to conduct an investigation regarding the misappropriation of public funds and take further legal actions. Nevertheless, the company had been taken action to cover up the criminal offense of misappropriation of public funds by filing a civil case to recover damages without filing a complaint to the police.

is located does not belong to the Mulativ division but to the Vavuniya Special Crime Investigation Division and the investigation was started in that division. Also, the case number 1338/2021/M had been adverted in Vavuniya District Court by the company to recover the above amount.

- (b) Due to using a rate higher than the exchange rate announced by the Central Bank of Sri Lanka at the time of the maturity of the letter of credit of the fertilizer supplier and the bank which has issued the letter of credit paid on behalf of the company in to a rupee loan, the amount totaling to Rs. 485,074,407 had to be paid the company for short term loan.

When the bills of the imported fertilizers are due, the money paid by the bank on behalf of the company converted into a short-term loan due to non-receipt of the bills from the Treasury. In hear, the bank had been sent the exchange rate related to that date to our company and based on that exchange rate was accounted.

It should be adjusted to the exchange rates published by the central bank.

3.2 Management Inefficiencies

Audit Observation

- (a) Lakpohora Company had been given motorcycles to sales promotion officers in the year 2018 on the basis of contribution of 50 percent of the total cost from the company with the approval of the Board of Directors. According to the agreement between the company and the officer who got the motorcycle, the officer should pay the remaining 50 percent by 60 equal installments and the motorcycle is owned by the company until the payment is completed. The store keeper of the Olumadu warehouse who had obtained a motorcycle under the said programme was suspended due to a fertilizer fraud and at the time of suspension officer had paid only 13 installments for the motorcycle. It was observed that a government property worth of Rs.325,000 had been misappropriated due to the failure to collect installments from August

Management Comment

The disciplinary order regarding the motorcycle given to the suspended stock keeper of the Olumadu warehouse on the basis of payment by 60 equal installments of 50 percent on contribution of the company will be received 2022.08.23. Accordingly, action has been taken to acquisition that motorcycle in the next accounting year.

Recommendation

Arrangements should be made to recover the arrears or take over the motorcycle to the company as per the agreement

2019 when the suspension took place to the end of the year under review or failure to take over the motorcycle to the company as per the agreement.

(b) The fees charged for Nuwara-Eliya and Polonnaruwa circuit bungalows owned by the company had been revised on 10 May 2019 with the approval of the Board of Directors. According to the internal memo containing the revised fees, although the 2 types of fees were introduced as festival season and non-festival season and 2 different form of charging fees for the employees of the company and outsiders, the time period included in the festival season and non-festival season had not been correctly introduced. Although the revised rates should be charged from the date of the internal memo, internal and external parties were given the opportunity to use the circuit bungalow by charging lower rates without charging the aforesaid approved fees correctly on the intervention of company executives.

(c) Although the duties had been introduced to the shift method since the lockdown of the country due to the covid-19 pandemic situation, overtime allowances of Rs. 39,219,757 were paid with an increase of 12.3 percent compared to last year due to the system had not been implemented and failure to control overtime.

As of September 2020, we had also identified that resort booking had been made at rates other than those approved by the Board of Directors or free of charge. Necessary instruction had been given to the circuit keeper of the resort after that identification. The introduction of a period in the festival season as “month of April” was mentioned in the board paper and in the internal memo issued. Other periods except April will be charged by considering as non-festival season.

Even though the country was lockdown due to the Covid pandemic situation and introduced the shift method, Ceylon Fertilizer Company Limited was carried out the distribution of fertilizers on time for the Yala and Maha seasons. Accordingly, the duties were carried out day and night in the distribution division and duties were not carried out in the shift method. Therefore, this increase in overtime payment was raised as usual.

Arrangements should be made to charge approved fees correctly.

Proper controls should be followed while paying allowances.

3.3 Operational Inefficiencies

Audit Observation

According to the agreement made with the transport agencies for the transportation of fertilizers, the cost of the respective damaged consignments should be paid by the transport agency to the company if the consignment handed over for transportation is damaged. However, the 58 bags of fertilizer which damaged and sand-mixed due to the accident of a lorry carrying subsidized MOP fertilizer on 21 December 2020 in Gampaha, Imbulgoda area had been taken back to the fertilizer company and made into 50 bags of fertilizer and taken into stock, nevertheless regarding that, arrangement had not been taken to carry out the formal investigation and recover the money from that company and also to use the stock of fertilizer which is kept in the warehouse.

Management Comment

A lorry belonging to Hameed Transport Service was face to accident in Imbulagoda area of Gampaha while transporting a load of MOP fertilizer from Hunupitiya to a regional warehouse and the 58 bags of MOP which damaged and mixed with sand were re-bag and amount of Rs. 302,533.65 was paid to our company through a separate cheque for the damaged stock. And the entire damaged stock had been taken over by the company and store in No.07 warehouse. Even though the transporter was requested to give the damaged stock of fertilizer after the recovering the loss from the transporter, the said stock of fertilizer had been taken into possession of the company as it is a stock of fertilizer owned by the company and action had been taken to recover the above loss on behalf of the stock of related fertilizer.

Recommendation

A formal investigation should be conducted and arrangements should be made to recover the losses and utilize the remaining stock.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation

Although the Company has a laboratory registered with the Sri Lanka Accreditation Board with laboratory equipment worth Rs.19,264,125 the number of sample tests conducted during the year under review was 103 and income related to that was Rs.1,200,140. Strategic plan has not 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.

Management Comment

Laboratory of our company was currently entrusted with unlimited responsibility in the implementation of government policies for green agriculture. Accordingly, the number of 836 sample parameters of the fertilizer purchased by the institute had been accomplished and its value cannot be adjusted to the accounts. Therefore, the numerically unaccounted value is Rs. 1,919,900. Only the income received from the tests carried out for external institutions was accounted. Its numerical value is Rs. 693,406. Only three employees are being worked in the laboratory and those employees had been working with maximum efficiency and effectiveness. Laboratory equipment had been utilized to the maximum extent for these analysis and some of these equipment had been repaired several times and had to be disposed from use.

Recommendation

A strategic plan should be prepared and implemented so that maximum income can be earned from the company's resources.

3.5 Human Resources Management

Audit Observation

Lakpohora company had been performed as the government agent for issuing fertilizer for paddy cultivation since the year 2006 when the system of providing subsidized fertilizer was implemented and since then, sales promotion and other sales-related tasks was widely reduced. Accordingly, the company had been continuously filled up the vacancies in the posts of district sales promoters, regional sales promoters and sales promotion officers belonging to the approved marketing staff instead of revising the approved cadre and recruitment for 5 regional marketing manager posts had been done on acting basis in the year 2021. Due to that, the company had to bear uneconomic cost for salaries and allowances.

Management Comment

In the composition of the staff approved by the Department of Management Service dated 2011.08.25 to our company was included 09 regional marketing managers posts in the middle level managerial service category. The appointment had been made on acting basis for 05 vacant of the posts of regional marketing manager due to registration of organic fertilizer suppliers and coordination of purchase/distribution of organic fertilizers in accordance with the existed government policy of shifting agriculture to the use of organic fertilizer and, the manipulate and operate of our store network was delegated to regional marketing managers.

Recommendation

The roles should be re-reviewed and the approved cadre should be revised accordingly.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation

As per the Paragraph No. 6.5.1 of 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 of the financial year 2020/2021 had been submitted to the Auditor General after 229 day of the end of the accounting year.

Management Comment

It was not possible to submit the final accounts on due date, due to the bad health condition in the country and restrictions on calling employees to work.

Recommendation

Action should be taken as per circular instructions.