

Colombo Commercial Fertilizer Ltd - 2020/ 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Colombo Commercial Fertilizer Ltd 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

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 Non-Compliance with Sri Lanka Accounting Standard

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
Although interest expense should be presented on the face of the cash flow statement as per Sri Lanka Accounting Standards 07, the amount of annual lease interest expense of Rs.1,683,333 was not disclosed in the cash flow statement of the year under review.	This shortcoming in the preparation of accounts will be corrected in the future.	Relevant disclosures should be made according to Sri Lanka Accounting Standards 07.

1.5.2 Accounting policies

Audit Observation	Comments of the Management	Recommendation
(a) Due to the fact that Dispatched Money of Rs.1,899,144 related to the financial year 2021/2022 was shown under other income in the financial statements of the year under review, the profit of the year under review was overestimated by that amount.	Necessary steps will be taken to correct this error which was occurred in accounting.	The profit of the company should be correctly estimated.
(b) Out of the refundable deposit value of Rs.3,630,022 under current liabilities, the amount of unclaimed refundable deposit exceeding one year is Rs.3,530,022 is and the action had not been taken to analyse and recognize that value as income of the company.	Relevant corrections will be made in the upcoming year.	If the overdue deposits are not claimed, those should be credited to income.

1.5.3 Accounting deficiencies

Audit Observation	Management Comment	Recommendation
(a) The company recognizes the value of the imported fertilizer stock for the year based on the arrival date of the respective fertilizer stock at the port and The purchase price and the cost of the stock of imported fertilizers related to the identified year in that way were accounted as Rs.7,547,932,485 and Rs.8,287,975,191 respectively. The following observations were made during observing of the aforesaid values.		
(i) In calculating the value of Rs. 7,547,932,485 which was accounted as the purchase price of the stock of imported fertilizers, the value related to the stocks that have been paid during the year has been calculated based on the date of payment and, the value related to the stocks to be further paid has been calculated on the date that the stocks reached the port. Accordingly, the purchase value of the imported fertilizer stock was overestimated by Rs. 50,969,114.	This error in accounting will be corrected in the future.	Inventory should be accounted at correct value.
(ii) Stocks of organic fertilizers worth Rs.11,955,750 purchased from local suppliers had been accounted as stocks of imported fertilizers.	This situation will be corrected in the future.	Fertilizer stock should be properly identified and accounted.
(b) In calculating the profit before tax in the cash flow statement, the annual depreciation of Rs.4,085,984 related to the leased car had not been adjusted.	This shortcoming in the preparation of accounts will be corrected in the future.	Annual depreciation related to fixed assets should be calculated and adjusted in the accounts.
(c) In the cash flow statement, cash inflows of Rs.3,686,895 have been shown under investing activities in respect of two cars acquired on finance lease and the audit observed that such cash inflows has not been actually occur during the year under review.	This shortcoming in the preparation of accounts will be corrected in the future.	Appropriate adjustments should be made correctly in the cash flow statement.

- (d) Even though the lease instalment payments of Rs. 2,228,063 was shown under financing activities in the statement of cash flows, the value of actual lease instalment payments in the year under review was Rs. 2,627,151. Accordingly cash outflows had been understated by Rs. 399,088. This shortcoming in the preparation of accounts will be corrected in the future. Appropriate adjustments should be made correctly in the cash flow statement.
- (e) Even though the software system (Sever & Network) worth Rs.3,894,518 which is currently used for accounting purposes by the company had been completed by 31 October 2019, cost of this system has been still accounted as capital in working progress. Accordingly, the Rs.1,298,171 of value of depreciation in related to the year under review and the depreciation value of Rs.1,839,076 related to the previous years had not been accounted as per the Sri Lanka Accounting Standards 16. Due to this, the value of non-current assets, profit for the year under review and the accumulated profit had been overstated. This shortcoming will be corrected in the near future. It should be followed the Sri Lanka Accounting Standards 16.

1.5.4 Unreconciled Control Accounts or Records

Subject	Value as per financial statements Rs.	Value as per corresponding records Rs.	Difference Rs.	Management Comment	Recommendation
Revenue of Fertilizer sales	1,541,996,996	1,547,347,352	5,350,386	Necessary corrections regarding this problem will be applied in the future.	Accurate sales value should be identified and shown in the accounts.

1.5.5 Unauthorized transactions

Description of unauthorized transactions	Management Comment	Recommendation
Although the value of Rs.160,447,581, which is the amount of interest related to the amount paid by the People's Bank to foreign fertilizer suppliers on behalf of the company and converted into a long-term loan, is included in the financial statements under other receivables, the Treasury has not agreed to settle the said amount and accordingly, it is further observed that there is no possibility of reimbursing this amount.	Answers have not been given.	Consideration should be given to the possibility of reimbursing the respective amounts.

1.5.6 Inappropriate Valuation or Estimation

Audit Observation

A total value of Rs 522,471 has been allocated for the disposal of non-current assets in the financial years 2014/2015 and 2016/2017 by the company and it has been deducted from the net value of non-current assets and, an allocation of Rs.1,105,803 has been made for the disposal of stationery in the accounting year 2019/2020 and it has been deducted from the stock of stationery. Sufficient explanation has not been given regarding the said deductions or reasons for carrying forward the said balances till the year under review.

Management Comment

Necessary actions will be taken in the coming year regarding the value of this very old unusable stationery.

Recommendation

Sufficient reasons should be given regarding deductions.

1.5.7 Identified losses

Audit Observation

A stock shortage of Rs.1,496,494 of chemical fertilizers was observed during the annual stock verification conducted on 06 and 07 April 2022.

Management Comment

Necessary actions will be taken to correct this problem in the future.

Recommendation

An inquiry should be made into stock shortages.

1.5.8 Utilization of Resources of Other Organizations

Audit Observation

The land of Wattala Hunupitiya where the company's head office is located, which has not been legally assigned to the company, was valued at Rs.90,000,000 and included in the non-current assets. Therefore the non-current assets had been overstated by that amount.

Management Comment

We have focused our attention on this issue and it should be emphasized that the necessary arrangements are being made to take over the legal right of this land to our company.

Recommendation

Legal ownership of the land should be verified.

1.6 Going Concern of the Organization

Audit Observation

Even though there was a risk of losing the company's main operating activity, the sale of chemical fertilizers due to the policy decision of the government to ban the import of chemical

Management Comment

The implementation of the fertilizer policy of the government in accordance with the government policy is a major responsibility of our company. According to the organic fertilizer policy, our organization has engaged with the Sri Lanka Land Development

Recommendation

Business risk should be identified and strategic plans should be prepared for that.

fertilizers, the management had failed to focus on other strategic operations and Rs.150,000,000 on the company's Repo Deposit of Rs.300,000,000 had been used for daily expenses.

Corporation to purchase compost fertilizer. It has also been arranged to release the purchased compost to the market as improved organic fertilizers. However, since there has been no stability in government policies in the past, our institution was maintained as a step for strategic planning. If the investment had been made in line with the organic fertilizer policy of the government, the company could have faced a huge financial loss at the present due to deviation from the organic fertilizer policy.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Subsection 10:1 of Chapter VIII of the Establishment Code as amended by Public Enterprise Circular No. 21/2013 dated 07 October 2013 of the Secretary to the Ministry of Public Administration and Home Affairs.	Payment had been made over to two days for working on weekends and public holidays without the approval of the Secretary of the Ministry.	Our company which is engaged in the distribution of 40% of the country's fertilizer needs has to complete the fertilizer distribution process in a very short period of time in the Yala and Maha Season. Accordingly, the orders given from the agricultural service centers should be completed even on holidays depending on the needs of the farmers. Due to this, two executive officers have been working on government holidays based on a decision given by the board of directors to speed up the meeting the needs of fertilizers in the Yala and Maha seasons of our company, which has a very minimal staff.	Prior approval of Secretary to the Ministry should be obtained.

- (b) Section 3 of Public Enterprises Department Circular No. PED 1/2015 dated 25 May 2015 and Circular No. PED 1/2015(i) dated 25 October 2016. A fuel allowance of Rs.600,000 as Rs.10,000 per month was given to five officers belonging to the MM 1-1 service category during the year on the approval of the Board of Directors by surpassing provisions of the Circular. Public Enterprises Circular No. PED 01/2015 has authorized group transportation for mid-level managers. In our company, where a very limited number of middle level managers are employed, the Board of Directors has given this decision since it will be less cost incurred by giving an allowance of Rs. 10,000 than the cost to group transportation. And also expected to get the approval of the Treasury for this. Approval should be obtained as per circular when paying allowances.
- (c) Subsection 10.1 of Chapter VIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. Several executive officers who entitled to 1/20 allowance had been paid overtime for hours worked after 4.30 pm. The role of distribution of 40% of the local fertilizer requirement of our company is done very efficiently with the contribution of the above limited number of officers and thus in performing the above mentioned task we have to work outside of working hours. The Board of Directors has decided to make this payment during very busy periods only for the officers who have to work at night in such cases. If this is not the case, there may be problems in the distribution of a large amount of fertilizer throughout the island in a very short period of time. As well as the fertilizer import process is carried out 24 hours a day and these activities should also be monitored. Due to this, this allowance has been given It should be followed the provisions of the Establishment Code.

only to the executive officers of the work division as per the decision of the board of directors.

1.8 Information Technology (IT) General Controls

Audit Observation	Management Comment	Recommendation
Even though the entire process related to fertilizers including receiving, issuing and exchanging fertilizers was computerized, due to the fact that the data could be entered into the computer system to be updated on a previous date, and the necessary general controls and system controls were not implemented, the audit could not be satisfied regarding the computer system.	If there are any defects in the computer system, steps will be taken to correct them.	It should be maintained essential general and system controls over computer systems.

2. Financial review

2.1 Financial results

The operating result of the year under review was a profit of Rs. 259,896,602 and the corresponding profit of the previous year was Rs. 162,858,311. Accordingly, an increase of Rs. 97,038,291 was observed in the financial result. This growth was mainly due to increase in sales revenue, miscellaneous income and clearance income and decrease in warehouse rent expense.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
Due to allowing overtime duty without proper management and control without limiting the hours of overtime that can be paid up to some level, the total amount of overtime allowance is Rs. 11.163 million had to be paid.	As mentioned in the above fact, 40% of the local paddy fertilizer requirement is imported and distributed by our company with a very minimum number of employees and due to this we have to pay more overtime allowances. Also the number of overtime hours will be limited during the periods when fertilizer distribution and import is not done.	It should be subject to proper control while paying allowances.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Management Comment	Recommendation
The sum of the start-up costs incurred in the year 2018/2019 for the construction of a warehouse in the Hambantota leased land is Rs. 3,732,901 and as of the year under review, the construction of the warehouse in the said land had not been started or the resources related to the capital expenditure incurred had not been utilized for any other project. It was observed that the said expenditure has become an idle expenditure.	There has not been a need to build fertilizer warehouses due to the change in the government's fertilizer policy and the ban on the import of chemical fertilizers. Therefore, our company is currently working to use that land for another effective project.	Resources should be used effectively.

4. Accountability and good governance

4.1 Presentation of financial statements

Audit Observation	Management Comment	Recommendation
According to section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, every state company must prepare financial statements and submit them to the Auditor General within 60 days of the end of the accounting year. The financial statements related to the 2020/2021 financial year had been submitted to the Auditor General after the 277 days of the end of the accounting year.	During the 2020/2021 financial year, due to the "Covid-19" pandemic situation in the country, the country was closed on a number of occasions, and the calling of employees had to be restricted. Due to this, as it was not possible to prepare the accounts on the scheduled dates and a request has also been made in the letter dated 03 June 2021 to give us enough time to submit the financial reports. Also, the delay in issuing the audit report related to the 2019/2020 accounting year is also the reason for this.	It should be proceed as per the relevant circular provisions.

5. Other matters

	Audit Observation	Management Comment	Recommendation
(a)	Even though the company policy is to impairment of debtors at the end of every financial year, that policy had not been implemented by the company after the year 2018/2019. The balance of Rs.37,961,958 in the debtor impairment account consistent with	Necessary arrangements have been made to write-off the debtor balances which are older and which can be ascertained as non-recoverable, and it will be done according to the instructions of Treasury Circular No. 01/2020 regarding write-off of the loan balance.	Debtor impairment should be done at the end of every financial year as per company policy.

the balance of Rs.4,857,456 due from Ceylon Fertilizer Company that has exceeded ten years and the balance of Rs.31,507,476 due from private institutions that has exceeded seven years and that value is as high as 95 per cent of debtor impairment. It was observed that although the recovery of those balances is uncertain, steps have not been taken to write them off.

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| (b) | Compared to the previous year, the bank charges expense had shown an extraordinary increase of 5,417 per cent in this year due to government stamp duty and stationery charges of Rs. 7,001,558 relating to the short-term loans taken during the year under review for settlement of imported fertilizer bills being debited to bank charges account and written off as an expense of the company. Matters regarding the write-off of the said expenditure against profit of this year had not been present to the audit. | Answers have not been given. | Facts should be disclosed about the deduction of relevant expenses against profit. |
| (c) | The employees of the company had been paid leave allowances totalling Rs.2,176,747 for saved short leaves and medical leaves and totalling Rs.1,196,450 for saved medical leaves of executive officers on the approval of the board of directors without the approval of the treasury. | Answers have not been given. | Treasury approvals should be obtained when paying allowances. |