

## **Colombo Commercial Fertilizer Ltd - 2021/2022**

---

### **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 2022 comprising the statement of financial position as at 31 March 2022 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 2022, 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 responsibility for 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 Observation	Management Comment	Recommendation
<p>The entire accounting process of the company was not carried out through the Enterprise Resource Planning software system (ERP) used for the company's accounting. As a result, it was observed that the accounting system and accounting data is with lacked reliability due to facts that, instead of bringing forward the automatically created opening balances, the officers later enter those balances into the ledger accounts that is downloaded through the system, enter journal entries without authority outside the system, not recording the cross account in the ledger accounts, maintaining certain expense accounts as Working Progress and showing the values to be transferred to the income statement as carrying forward balances.</p>	<p>It should be mention that the new computer software system has been prepared so that it can be fully utilized. And that computer software system has been fully utilized at the present.</p>	<p>Enterprise Resource Planning software system (ERP) should be fully utilized.</p>

### 1.5.2 Accounting Policies

Audit Observation	Management Comment	Recommendation
<p>(a) Financial and administrative charges including transport, loading and unloading charges incurred by the company for Nano Nitrogen Liquid Fertilizer and Potassium Chloride (KCL) Fertilizer of Rs. 35,826,386 and Rs. 142,434,225 respectively were accounted as balances due from the treasury instead of being considered as expenses of the company, nevertheless the company did not have confirmation that those values will be reimbursed from the treasury.</p>	<p>The financial and administrative expenses including fertilizer distribution expenses and unloading charges for liquid fertilizer and potassium chloride (KCL) are not included in the expenses of the company. Nevertheless the amount paid for those expenses should be paid to our company by the Treasury. It should be recalled that we have not</p>	<p>Confirmation of balances from treasury should be obtained and accounted.</p>

been given any written confirmation of the balances due from the Treasury or payable to the Treasury so far.

- |  |   |  |
|--|---|--|
| <p>(b) The values of Rs.1,687,462 and Rs.3,360,431 to be collected from store-keepers for stock shortages in Dehiattakandiya in 2012 and Negama regional warehouse in 2014 which should be disclosed as stock shortages had been included in the sundry debtors balance of Rs.5,048,633 stated under current assets in the financial statements.</p> | <p>Unable to agree. Because in the years 2012 and 2014, these stock shortages were revealed as stock shortages and the legal proceedings to recover the loss from the relevant parties are going on through the courts. Therefore these values are represented in the debtor balance.</p> | <p>The stock deficiency should be removed from the debit balance and appropriately classified and presented.</p> |
|--|---|--|

### 1.5.3 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Even though Rs. 253,301,126 has been paid to the supplier on 18 October 2021 for importation of 100,224 bottles of Nano Nitrogen at 12.45 USD per each bottle, the action had been taken to reduce the price of a bottle to 10 USD in later. Accordingly, the excess paid amount of Rs. 49,846,406 to the supplier had not been recovered until 30 January 2023 which was the date of audit and the said amount had not been accounted as receivable in the final accounts.</p>	<p>Due to the urgent need of the country, the Ministry decided to import Nano Nitrogen liquid fertilizer on the Cabinet approval and accordingly, to be imported the Nano Nitrogen 500 ml liquid fertilizer bottles at 12.45 USD per each. Consequently 100,224 bottles of liquid fertilizer were imported as of the first stock. For that, payments were made using Telegraphic Transfer (TT) method. Later, letters of credit were opened on the cabinet decision and 10 USD per each was paid for remaining liquid fertilizers. Even though the overpaid amount of Rs. 49,846,406 on import was advised to the bank to recover at the time of the amount paid for the fertilizer stock through the letter of credit, the bank informed us that it is not possible. Also this overpaid amount is payable to the treasury. The role of the company in this transaction was only the distribution of liquid fertilizers and there was no commercial transaction. However, It is mentioned that since we were involved in this matter as the intermediary party, our company has also intervened in the</p>	<p>Appropriate steps should be taken to recover the overpaid amount to the supplier.</p>

necessary legal proceedings to recover the relevant amount.

- |     |  |   |   |
|-----|--|---|---|
| (b) | The purchase cost of 100,224 bottles of 500 ml liquid Nano Nitrogen fertilizer amounting to Rs. 671,952,086 and the purchase cost of 11,928.4 metric tons of Potassium Chloride (KCL) fertilizer amounting to Rs.1,158,661,966 and total amount of Rs.1,830,614,052 had not been included in the income statement as fertilizer purchases and free issues. | In case of import of Potassium Chloride (KCL) fertilizer for liquid fertilizer, payment for fertilizer and port clearance fee (PAL) has been paid directly by the Ministry to the relevant suppliers. Our company has distributed the relevant fertilizer stock and has taken steps to recover the costs incurred for that, and there is no financial benefit to our company in this process. Therefore, we feel that this fertilizer distribution process cannot be considered as a business transaction of the company. We, as a public company, contributed to the implementation of the government policy and contributed to the distribution of this fertilizer, nevertheless the company did not receive any financial benefit. Therefore, It is reminded you that the value of these fertilizers to the company is zero. | The value of the relevant stock of fertilizers should be included in the income statement as purchases and free issues. |
| (c) | The profit of the year under review was understated due to the fact that the dispatch money of Rs.1,899,144 related to the year under review had been included in the financial statements of the previous year and rectification was not done during the year under review also.  | Agreed. It is informed that immediate action will be taken to make the relevant corrections.  | The income for the year should be accurately reflected in the financial statements.                                     |
| (d) | The Wattala Hunupitiya land 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 were overstated by that amount.   | It should be informed you that the necessary arrangements are being made to obtain the legal ownership of this land, and business activities is being carried out on this land for a long time.   | Assets that have a legal title should only be included in the financial statements.                                     |
| (e) | The software system (Server & Network) worth Rs.3,894,518 which was started on 31 October 2019 and installed by 09 October 2020 and the  | Agreed. It is informed that urgent steps will be taken to avoid such problems in the future.  | Action should be done according to the Sri Lanka Accounting Standard.   |

ERP system worth Rs.2,750,000 used for accounting purposes had been further accounted for as capital working progress in the financial statements. The values of its depreciation in the year under review were Rs.1,298,173 and Rs.916,667 respectively, and the accumulated depreciation values of Rs. 3,137,251 and Rs.1,375,000 were also had not been accounted for. Accordingly, the profit of the year review and accumulated profit had been overestimated due to failure to correct this error which was revealed also by the audit report of the previous year.

- |     |  |  |   |
|-----|--|--|---|
| (f) | <p>In the year 2016, due to stopping the release of subsidized fertilizers and switching to the method of giving money to the farmer, the subsidy value that was reimbursed from the treasury related to the stocks of fertilizers held by the company on that day was Rs. 2,112,468,040 and it should be remitted to the treasury. However it was carried forward without remitting to the treasury and Rs. 5,154,571 had been credited to that account in the year under review as stamp and stationery charges.</p> | <p>It is informed you that attention have been paid to the relevant matters and necessary actions will be taken to correct this problem as soon as possible.</p> | <p>The values to be remitted to the Treasury should be ascertained and settled.</p> |
|-----|--|--|---|

#### 1.5.4 Identified Losses

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Even though 11,781.5 metric tons of Potassium Chloride (KCL) fertilizer has been received to the warehouse of the company's head office during the year under review, the amount of fertilizer released was 11,780.5 metric tons according to the fertilizer release reports as of 31 March 2022. Accordingly, even though Rs. 109,039 worth of 1,000 kg of fertilizer should be available in the</p>	<p>This represents the fertilizer stock removed as sweeping during the unloading and loading process of 235,610 bags of fertilizer or 11,780.5 metric tons of fertilizer in a very short period of time. It is a very small value of 0.00084 as a percentage and It is informed that appropriate actions have already been taken to prevent this from happening in the future.</p>	<p>The reasons for the deficiency should be investigated and the responsible parties should be identified and charged.</p>

company's warehouse, such stock has not been observed during the audit conducted on 31 March 2022.

- (b) Even though a stock shortage of 124.48 metric tons related to 18 types of fertilizers was identified and its value was calculated as Rs 7,469,453 in the stock verification carried out by the company on 31 March 2022, the formal investigation has not been conducted until the audit date of 15 February 2023 to identify the causes and responsible parties for these stock shortages.
- It is informed you that a special committee with the participation of the general manager of the company is currently investigating this issue and it will be completed immediately and appropriate actions will be taken.
- The parties who responsible for fertilizer deficiency should be identified and charged promptly.

#### 1.5.5 Documentary Evidences not made available for Audit

<b>Item</b>	<b>Amount Rs.</b>	<b>Evidence not available</b>	<b>Management Comment</b>	<b>Recommendation</b>
The legal fees incurred by the company for the legal proceedings related to the importation of Nano Nitrogen liquid fertilizers were listed under other receivables without ascertaining the party to be reimbursed.	635,250	Balance confirmation documents	This expense is not an expense incurred by our company but a legal expense incurred by People's bank. As it is not an expense to be borne by us, the amount related to this expense should be paid to us by People's Bank. It has been already informed to the relevant bank in writing about this matter and It is informed you that the relevant amount will be collected immediately.	The company must have written evidence confirming the expenditure.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though the payment to foreign fertilizer suppliers was done by People's bank in the year 2021 and that amount converted into a long-term loan, amount of Rs.160,447,581 interest charged by the bank included in the financial statements under other receivables. However it was observed that there was no agreement from the treasury to reimburse that amount to the company.	It should be informed you that the Treasury has been informed on several occasions regarding this issue and they will not provide written confirmations.	The possibility of reimbursing the money should be verified from the Treasury.

### 1.6.2 Payables

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) 02 cheques worth Rs. 427,615 issued to the suppliers from the company's current account in the Bank of Ceylon were not presented to the bank for payment and action had not been taken in this regard until 31 January 2023	This issue has arisen due to non-presentation of these cheques to the bank. Necessary action had been taken to correct this issue and necessary action will be taken to prevent such a situation from occurring in the future.	Action should be taken as per Financial Regulations regarding the Cheque issued but not cleared in the bank.
(b) 13 cheques with a total value of Rs. 353,790 issued from the company's current account in the People's Bank between time periods of 2018 to 2021 were not presented to the bank for payment and action had not been taken in this regard until 31 January 2023.	This issue has arisen due to non-presentation of these cheques to the bank by the related suppliers. Necessary action had been taken to correct this issue and necessary action will be taken to prevent such a situation from occurring in the future.	Action should be taken as per Financial Regulations regarding the Cheque issued but not cleared in the bank.



### 1.6.3 Advances

Audit Observation	Management Comment	Recommendation
Action had not been taken to recover the credit balance of Rs.65,000 of the loan amount given as employee loan and advances to 06 employees who have left the service in the year 2012 included in the receivable balances of the financial statements and the loan amount of Rs. 20,000 of the welfare association as stated under other receivable balances still now.	Necessary action had been taken to recover the loan amount of the employees' welfare association and accordingly the loan amount will be settled in the next few days and the balances of Rs. 65,000 in the employee loan and advance account is not from the year 2012, nevertheless that balance has been there for a long time.	Action should be taken to recover Debt balances.

### 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 of the Democratic Socialist Republic of Sri Lanka	Officers who entitled to 1/20 allowances had been paid overtime allowances of Rs. 16,875 for hours worked after 4.30 pm.	The company was paid Rs. 125 per hour to a few officers on duty after 4.30 pm only during the busy periods with special permission of the Board of Directors and that is not a overtime allowance.	It should be followed the provisions of the Establishment Code.
(b)	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.	1/20 allowances of Rs. 149,762 had been paid to 13 officers for working beyond 02 days on weekends and public holidays without the prior approval of the Secretary of the Ministry	The company is fulfilled the role of distributing 40% of the local paddy fertilizer requirement through agricultural service centres all over the island with a minimum number of officers. In order to overcome the existing shortage of officers and perform these tasks, the staff officers have to work on Saturday, Sunday and holidays. Therefore one officer has to work for more than 02 days. As it is practically impossible to carry out duties after obtaining the approval of the Secretary of the Ministry in very busy situation, the payment will be made to officers whom worked more than 02 days under the approval of the Chairman who is the head of the Board of Directors.	Prior approval of Secretary of the Ministry should be obtained.

## 1.8 Unreconciled Control Accounts or Records

<b>Subject</b>	<b>Value as per financial statements Rs.</b>	<b>Value as per corresponding records Rs.</b>	<b>Difference Rs.</b>	<b>Management Comment</b>	<b>Recommendation</b>
A difference was observed between interest income on fixed deposit under financial income in the financial statements and that value in the schedule including interest rate.	122,647,659	122,532,334	115,325	Necessary corrections regarding this problem will be applied in the future	Revenue which calculated accurately should be included in the financial statements.

## 1.9 Unauthorized Transactions

<b>Description of unauthorized transaction</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although only 50 percent of the Dispatch money received annually by the company will be paid subject to the approval of the Board of Directors subject to a maximum amount equal to three months basic salary based on the performance of the employees as per letter No. PED/P/04/24(i) dated 06 April 2021 of the Director General of the Department of Public Enterprises, the company has made incentive payment of Rs.16,687,081 during the year under review based on the sum of basic salary and cost of living allowance of the employees, out of which Rs.2,901,600 were observed to be non-compliant	The annual incentive paid by the company is based on the letter No. PED/S/CCFL/03/05/(i) dated 2021.12.08 of the Director General of the Public Enterprises of the Treasury and the Board approval had been obtained. In the above mentioned letter, it is not stated that basic salary should be used as basis for calculation of incentive. Therefore we have taken the sum of basic salary and cost of living allowances as salary.	The incentive should be calculated on the basis of the basic salary of the officer as per the circular of the Director General of the Department of Public Enterprise and over paid incentive should be charged.

## 2. Financial review

### 2.1 Financial results

The operating result of the year under review amounted to a profit of Rs. 160,827,729 and the corresponding profit in the preceding year amounted to Rs. 259,896,602. Therefore deterioration amounting to Rs. 99,068,873 of the financial result was observed. The reasons for the deterioration are decrease in sales revenue, miscellaneous income and clearance income.

## 3. Operational review

### 3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
(a) 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. Accordingly, it was observed that the said expenditure has become an idle expenditure	This problem has arisen due to some changes in the government policy and at the relevant time i.e. in the year 2018/2019, it was planned to build a storage terminal in the respective land, nevertheless the implementation of the plan was delayed due to changes in the state fertilizer policy. At present, the attention is on making the maximum use of this land and immediate action is being taken in this regard.	It should be ensured that the expenditure incurred is not uneconomical.
(b) The company had paid Rs.475,200 as rent of the warehouse from July 2022 to February 2023 without using the warehouses at Badulla railway station which was obtained from the railway department on rent basis.	This problem has arisen due to the change in the government policy of the fertilizer. Necessary actions have been taken to minimize such problems as much as possible in the future.	Warehouses should be taken on rent basis to minimize the uneconomical expenses,

### 3.2 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) In the settlement of imported fertilizer bills, the normal practice of the company is to make related settlement to foreign fertilizer suppliers on behalf of the company by the People's Bank and convert it into a short-term loan. It has been observed during the audit that an additional uneconomic interest expense of Rs. 821,075 has to be incurred due to	This fact is not a deal made with foreign fertilizer suppliers. This is interest charged on account of late payment for Nano-Nitrogen liquid fertilizer. That amount is directly credited to our company's account by the Treasury and due to some delay in crediting the amount, this interest has been charged from our	If the bank has committed any error, it should be rectified immediately.

the delay in sending the application to the bank although the bank informed the company about the payment for fertilizer on two occasions to convert the relevant amount into a short-term loan, the relevant amount was automatically convert in to a bank overdraft.

current account. That amount should be reimbursed to our company by the Treasury.

- (b) It was observed in the audit that the bank overdraft interest was 3.5 percent higher than the fixed deposit interest due to the withdrawal of Rs. 85,000,000 to open a fixed deposit on 20 April 2021 when there was an overdraft balance in the company's current account No. 135670 in the Bank of Ceylon. Accordingly, opening the fixed deposit when there was a bank overdraft balance is further observed as an uneconomical investment decision.

It was decided to open a letter of credit through the Bank of Ceylon for the import of stock of fertilizer for other crops and this fixed deposit had been opened to retain it as bond. However due to the change in the government policy of the fertilizer, the import of chemical fertilizer was stopped. As a result, the relevant letter of credit could not be opened. Because of this, a fixed deposit had been opened at an interest rate lower than the bank overdraft rate and since then no fixed deposit account had been opened at an interest rate lower than the bank overdraft rate.

The financial strength of the company should be developed.

### 3.3 Human Resources Management

#### Audit Observation

The number of approved cadre in the company is 151 and out of that including 1 out of 5 posts in executive grade (HM category) and 3 out of 10 posts in middle level (MM category), 20 posts were vacant even before 31 March 2021. Accordingly, the total number of vacancies on 31 March 2022 was 22.

#### Management Comment

Although our attention has been paid to this issue, recruitment for these posts had been temporarily suspended due to government policy. Therefore, there is no possibility to recruit officers for such vacant posts.

#### Recommendation

Even though the recruitments are temporarily suspended, Treasury advice should be obtained considering the service requirement.

#### **4. Accountability and good governance**

##### **4.1 Presentation of financial statements**

###### **Audit Observation**

As per the Paragraph No. 6.6 of the Operation manual issued with the Public Enterprise Circular of the Secretary to the Treasury No. 01/2021 dated 16 November 2021, 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 2021/2022 had been submitted to the Auditor General after 252 day of the end of the accounting year.

###### **Management Comment**

The financial statements of the previous year, i.e. the financial statements of the accounting year ending on 31 March 2021 were submitted by our company for the audit on 2022.03.02 and the final audit report will be received by us on 2022.09.26. As a result, there had been a delay in preparing and finalizing the financial statements of this accounting year.

###### **Recommendation**

Action should be taken as per related circular instructions