

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Fertilizer Company Ltd (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 material accounting policy information 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 2023 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 Non-compliance to the Sri Lanka Accounting Standard

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) The cost of Rs.474,086,056 incurred during the year under review for the purchase of local fertilizers was included in the import purchase value of fertilizers. Nevertheless, according to paragraph 45 of Sri Lanka Accounting Standards 1, the items of the financial statement were not presented and classified correspondingly to the previous years and the company had not been taken actions to correct this error observed by the audit also in the previous year.	Agree. It was done correctly in calculating the cost of sale. It was not impacted in presenting the financial statements.	Items in the Financial Statement should be presented and classified corresponding to the previous year as per the Standard.
(b) The company was allowed to bear the costs of clearance, transportation, distribution and administration of fertilizers imported under loans and grants during the year under review and to reimburse those costs from the treasury. However, although the company had separately identified the types of costs incurred for the related fertilizer stocks, reimbursable expenses that are not expenses of the company had been reduced under the cost of purchase without acting in accordance with Sri Lanka Accounting Standard 20. Due to the fact that Rs.715,031,170 accounted under direct costs and Rs.292,493,832 accounted under administrative expenses were also included in that expense, there was an abnormal increment in those expenses and Rs.300,854,825 of abnormal credit value was appear as the cost of purchase.	Agree. It will be correctly accounted in the future years.	Cost of sale should be correctly identified and accounted.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the balance of the current account No.0210919 of the company in the People's Bank as at the end of the year under review according to the cash book was Rs.360,159,463 and the balance according to the bank statement was Rs.382,799,826 on that day, the balance of the bank account according to the prepared bank reconciliation statement had been Rs.358,733,130. A difference of Rs.1,426,333 was observed due to the fact that, the balance according to the cash book before revision was shown instead of the revised bank account balance in the financial statements and the reasons for that had not been identified.	Agree. All the cash books and bank reconciliations are prepared by the computer system and when the cheques are cancelled after the expiry of 90 days, the cancellation is adjusted in the cash book with the date of issue of the cheque. Due to this reason, the difference between the balance in the cash book and the bank ledger as on 31.03.2023 has occurred. This difference will be automatically adjusted in the system. This has been corrected in the 2023/24 accounting year.	The correct balance of the bank account should be presented in the financial statement.
(b) The transport and handling charges was under-accounted for Rs.21,892,044 in the previous year and Rs.13,000,000 of that value was adjusted to the relevant expense account in the year under review and the remaining amount of Rs.8,892,044 was not adjusted. Due to non-adjustment to retained earnings account, profit for the year had been understated by Rs.13,000,000 and retained earnings had been overstated by Rs.8,892,044.	Agree. In the previous year, transport and handling charges of Rs.21,892,034 was not under-accounted and only Rs.13 million were under-accounted and Rs.8,892,044 was adjusted to the transport expenses in the relevant year. It has been debited to the relevant expense account by 919 in October 2021 and not to the advance account. Accordingly Rs. 13 million will be corrected by making adjustments to the retained earnings in this year.	Expenses related to the year should be correctly identified and accounted.
(c) The prepaid value of insurance premium in the financial years 2020/2021 and 2021/2022 had not been recognized and accounted in those years. In the correction of those accounting deficiencies during the year under review, the balance of the prepaid insurance premium account had been overstated by Rs.3,471,617 and the profit of the year under review had been overstated by Rs.3,201,816.	Agree. Action will be taken to rectify the error occur in stating as a pre payment in analyzing the cash book even though the 2022 insurance pre-payment has been corrected as per the audit report.	Expenses related to the year should be identified and accounted.

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| (d) | The cost of Rs.763,314,221 incurred for the transportation of fertilizer from the company's main warehouse to the regional fertilizer warehouses and agrarian service centers had been accounted under cost of sales without taking it as the selling and distribution expenses. | Agree.

Action will be taken to correct this presentation from this year. | Expenses should be properly identified and thereby cost of sale should be calculated. |
| (e) | In doing adjustment during the current year related to the under accounting of container office depreciation by Rs.274,290 in the financial year 2021/2022, due to debiting Rs.326,550 to the container office depreciation account of the current year without adjusting to the retained earnings, the profit of the current year had been overstated by the that amount. | Agree.

It will be corrected in future year. | Calculation of annual depreciation and accounting should be done correctly. |
| (f) | In the inspection carried out regarding the deficiency of Rs.2,441,181 in stationery, water pipe fittings, building materials and vehicle spare parts etc. included in consumable items account in the year 2020/2021, although it was reported to the audit that unissued fixed assets worth Rs.2,010,196 and consumable items worth Rs.15,470 was not included in the physical stock and thus the actual deficiency was Rs.415,514, it was stated as receivable value without making any adjustment in this regard. In the corresponding adjustment in the year under review, the said value had been debited to the consumables account and credited to the unrealized stock variance account. As a result, non-current assets had been underestimated by Rs.2,010,196 and retained earnings had been overestimated by Rs.415,514. | Agree.

A deficiency of Rs.2,441,181 was reported in the consumables account in the accounting year 2020/21 and that was Rs.2,010,196 value of fixed assets left in the warehouse without issuing as at the stock verification date 31.03.2021 and was and consumables the amount of Rs.415,514 difference in the price assessment due to the non-inclusion of the consumable items worth Rs.15,470 in the physical stock. It will be corrected in the relevant accounting year. | Shortage of stock should be identified and correct adjustment should be done. |

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| (g) | The amount of Rs.732,188 incurred in the previous year for sample test and analytical reports of the imported fertilizer had been debited to an advance account instead of being debited to the expense account. Due to debiting of the letter of credit charges account without making adjustments in the retained earnings account while the correction of that error in the year under review, the profit of the year had been understated. | Agree.
It will be corrected in future year. | Actual expenditure related to the year should be correctly identified and accounted. |
| (h) | The shipping cost of Rs.500,000 which was over-accounted in the previous year had been corrected in the year under review. Due to the fact that, crediting the transport and handling expenses account of the year without making adjustments in the retained earnings accounts, the profit of the year had been overstated by that amount. | Agree.
It will be corrected in the next year. | Expenditure related to the year should be correctly identified and accounted. |
| (i) | During the financial year 2021/2022, i.e. during the period of ban on chemical fertilizers is in effect, according to a request made by the letter No.SMFI/2/D/NFS/11 dated 14 September 2021 of the Director of the National Fertilizer Secretariat, a stock of 10 tons from the stock of urea fertilizers that the company were imported had been given to a private company. The security deposit of Rs.900,000 taken as its commercial value was credited to the debtor's account instead of being credited to the creditor's account. In the year under review, due to debiting the stock adjustment account instead of debiting the debtor account, the gross profit, current assets and current liabilities were understated by Rs.900,000. | Disagree.
According to the instructions given by the letter dated 14.09.2021 of the Director of National Fertilizer Secretariat SMFI/2/D/NFS/11, A security deposit of Rs.900,000 was taken and fertilizer was issued when issuing the 10 metric tons of fertilizer to the Cabinet decision to a private company on loan basis from imported fertilizers for provide as subsidies to farmers according. The stock of fertilizers has been returned to our company by now. Notes of the deposit that the security deposit will be refunded has been notified to the relevant institution and will be released in the future. | Security deposit should be correctly accounted. |
| (j) | All the cash credited to the company's two current accounts of Bank of Ceylon No.1630339 and People's Bank No.204501 were accounted in a ledger account called Receipt in advance and it was observed that cash sales were also | Agree.
When the company accounts for cash sales revenue, cash received from customers for the purchase of fertilizer are initially recorded in receipts in advance account. Later, the | Cash receipts should be correctly identified and accounted. |

accounted as advance receipts and later transferred to a sales income account. Accordingly, the actions were not taken to account to the correct accounts and settle by identifying a proper method to identify the cash credited to current accounts and an unsettled credit balance of Rs.5,602,753 as of 31 March 2023 had been disclosed in the financial statements. Balance confirmation letters were not submitted to audit to confirm this balance.

amount related to the sales account is debited from the advance account at the every time the customer takes the fertilizer related to that amount. It is the way the company continues to operate. At the end of the accounting year, balance confirmation letters were not taken from those customers and these balance confirmation letters will be taken in the next accounting year.

(k) During the year under review, the company received Rs.3,239,944 more than the value that had been accounted as receivable from the treasury for the import of subsidized fertilizers in the previous year and, due to the fact that the value has been deducted from the purchase cost of the year without making adjustments to the retained earnings account, the operating profit of the year under review had been overestimated.

Agree.

This will be corrected in the next year.

Expenses related to the year should be correctly identified and thereby cost of sale should be calculated.

(l) In calculating the total value of the expenses identified as recoverable from the treasury for Urea, M.O.P. and T.S.P. fertilizer received by the company under loans and grant during the year under review, Rs.255,891,350 had been deducted and the information related to fertilizer sales of K.C.L. was included in the supporting documents submitted with the relevant journal voucher, nevertheless, audit was unable to ascertain the value of the fertilizer as the K.C.L. fertilizer was not imported under credit or subsidy schemes during the year under review and clear and specific information was not presented by the company.

Agree.

The sale value has been billed based on the overhead cost incurred for the distribution of this fertilizer and all sales have been recorded in the debtors' accounts. Nevertheless, when applying for fertilizer subsidy, the cost of handling has also been applied as subsidy. Accordingly, this has been double counted and this journal entry removed the cost of handling claimed as subsidy from the accounts.

All correct information and supporting related to the transactions should be presented to audit.

(m) The company has filed a case number 31/26/2019 in the Wattala Labor Court due to the failure of the former procurement manager who was at that time to obtain the advance bank guarantee given by a selected contractor after a call for tenders for carpeting the floor of the

Agree.

The salary that was reserve on behalf of the procurement manager who was interdicted by now should to be removed from provisions. Action will be taken to correct that.

Action should be taken to correct balances after taking proper approval.

company's warehouse premises in the year 2015 and the relevant order was published on 08 July 2022. Accordingly, the said officer has been decided as an offender and he had already voluntarily left the service by that time. The company has suspended the salary of the officer from 17 June 2015 and credited Rs.917,910 to the payable expenses account as the arrears of salary of him and due to the fact that the amount is being shown under the accounts as a payable, the non-current liability had been underestimated by that amount.

**1.5.3 Accounting Policy
Audit Observation**

Comments of the Management

Recommendation

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| (a) | At the end of the year under review, 701 bottles of 500 ml liquid Nano Nitrogen fertilizer were physically available and the value of that had been stated as Rs.5,257.50 as Rs.7.50 per each bottle. The purchase value of a bottle of Nano Nitrogen liquid fertilizer is Rs.2,040 and on valuing it at Rs.7.50, the reduction in value of the stock as a stock loss/depreciation has not been adjusted in the financial statements. It is also observed that the liquid fertilizers that were imported in the year 2021 have expired as at the end of the year under review and net realization value have not there and the fertilizers were purchased from the provisions of the then State Ministry of Agriculture for free issues and therefore it is not correct to value them as stock of the company. | Agree.

The 701 of 500 ml Nano Nitrogen liquid fertilizer were physically exist and only the overhead cost that was incurred by the company for those fertilizer has been accounted. Action will be taken to correct this in the next year. | Stock value should be correctly accounted. |
| (b) | The debtor balance as at end of the year under review is Rs.1,066,771,612 and it was observed during the audit that there is a balance of Rs.918,765,715 up to 1-2 years old, a balance of Rs.120,500 up to 2-3 years old and a balance of Rs.807,650 up to 4-5 years old, a balance of Rs.56,596,887 up to 5-6 years old, a balance of Rs.878,607 up to 9-10 years | Disagree.

Actions have been taken to recover the debt balances over 10 years. Accordingly,

• Janatha Estate Development Board Rs.37,993,346. | Immediate actions should be taken to recover the debt. |

old and a balance of Rs.86,502,049 more than 10 years old in that balance. Out of the balance of more than 10 years, Rs.86,308,870 are outstanding debtor balances from government institutions and the company has not taken effective actions to settle them and verify their correctness.

- Regarding the State Plantation Corporation's debt collection of Rs.35,931,679, the Secretary has instructed the institutions to pay the entire outstanding amount before 31.12.2023. A letter dated 21.12.2023 has been forwarded again to the Secretary of the Ministry regarding the fact that no steps have been taken to settle the arrears so far.
- Ampara Deputy Director of Agriculture has submitted a complaint to the Criminal Investigation Department regarding the amount of Rs.12,543,846 and the Attorney General's Department has instructed the Criminal Investigation Department to conduct further investigations. The Criminal Investigation Department has informed us that they have received the information from the active farmers' organizations and are being conducted further investigations.

1.5.4 Inappropriate Valuation or Estimation

Audit Observation	Comments of the Management	Recommendation
(a) At the end of the year under review, The 3,153 metric tons of compost were classified at a value of Rs.38,063,251 based on the percentage of nitrogen determined according to the records of their purchase. Nevertheless, it was observed in the audit that the value of the stock has not been considered due to the change of nitrogen percentage in storage and weather conditions.	Disagree. At the time of purchasing the compost, the percentage of nitrogen has been analysed by the company's laboratory and the purchase and sale have been made accordingly. As the percentage of nitrogen constantly undergoes changes according to the weather conditions, it is not practical to re-analyse and since its nutritional components are determined on the basis of microbial activity, it is not practical to calculate the value according to its change.	Stock value should be correctly assessed and accounted.

- (b) Although the sum of the value to be reimbursed from the treasury on the expenses incurred by the company for 15,009,964 metric tons of fertilizer from the stock of Urea, T.S.P. and M.O.P. fertilizers imported by the Ministry of Agriculture under loans and grants which was given to the company for distribution and sale activities during the year under review is stated in the financial statements as Rs.1,687,821,803, during the inspection of the payment vouchers related to those expenses, differences between the actual expenses incurred by the company and the values calculated to be reimbursed from the treasury were observed and it was observed that Rs.9,327,156 more than the actual expenditure was included in the value indicated as recoverable from the treasury.
- Disagree.
- All expenditure on imported fertilizers under various grants and credit schemes was reimbursed from the Treasury by submitting actual bills of import. Nevertheless, the transport and labour charges were applied by calculating the import quantity of the respective vessel. However, while paying for transportation and labour bills, we have paid for third party bills in monthly bills instead of shipping. Accordingly, it is not possible to compare the values reimbursed by the company in vessel wise from General Treasury with the actual billed values.
- The value to be reimbursed from the Treasury should be calculated and accounted for based on actual expenditure.
- (c) Rs.1,936,904 of outstanding salaries, incentives and bonuses accounted before the financial year of 2010/2011 and included in the accrued expenditure had not been settled by the date of audit and the officers to be paid had not been confirmed.
- Agree.
- The amount of Rs.1,936,904 which is the balance of arrears of salaries, incentives and bonuses accounted before the 2010/11 financial year included in the accrued expenses will be removed from the accounts as the relevant officers have now been dismissed.
- Balances to be paid and officers should be confirmed and settled.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
Write-off the import advances.	2,143,772	Relevant bills or documents to prove the expenditure.	Agreed. The company has no any documents related to this transaction since the transaction is more than 16 years old. So this has been transferred to expenses account.	Due balance should be properly considered and written off properly.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
By end of the year under review, there were 07 assigned cases against the external parties to recover the losses incurred by the company and also one 01 assigned cases against the company by the external parties, and the related information was not disclosed in the financial statements.	<p>Agreed.</p> <p>The following cases will be disclosed in the financial accounts in the next year.</p> <ol style="list-style-type: none">i. The case of recovery of Rs.122,398,095 and 25 percent surcharge due to fraud of subsidized fertilizers stock in 2005/06 by a former sales representative of the company.ii. The case regarding recovery of Rs.118,758,893 and 25 percent surcharge due to fraud of subsidized fertilizers stock by former sales representative of the company in 2005/06.iii. The case No. CHC/481/2013/MR which filed at Colombo Commercial High Court related to recovery of Rs.557,490,000 as loss caused due to not sale the purchased fertilizers of the company.iv. The case related to the recovery of Rs.11,974,234 due as loss incurred while working as a former sales representative.v. The case regarding the recovery of Rs.14,796,235 due to fraud of subsidized fertilizers by the former stock officer of Potuvil Regional fertilizer warehouse.vi. An amount of Rs.645,300 receivable for fertilizer issued to a former sales representative.vii. The case regarding the recovery of the receivable outstanding amount of Rs.10,580,000 due to non-payment of dues properly for fertilizers issued by the company and violation of contractual terms.viii. Execution is to be proceeded against a former sales representative to recovery the amount of Rs.936,000 due for fertilizer issued to him.	All legal cases related information should be disclosed in the financial statements.

2. Financial review

2.1 Financial results

The operating result of the year under review amounted to a profit of Rs.120,800,836 and the corresponding profit in the preceding year amounted to Rs.81,575,919. Therefore, an improvement amounting to Rs.39,224,917 of the financial result was observed. The reasons for the improvement are decrease in cost of sales, increase in Interest income of fixed deposits and increase in Interest income of REPO investments.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the number of approved posts of Internal Audit Officer in the company was 01, the actual number as on the last date of the year under review was 04. The action had not been taken to approve the excess number of workers.	Disagreed. On 2011.08.25, 04 Audit Executives were employed in the Internal Audit Division prior to the approval through the letter No.DMS/GI/14/08/122/01 (VO/01) dated 2011.08.11 of the Director General of the Department of Management Service. Due to Ceylon Fertilizer Company Ltd and Colombo Commercial Company Ltd will amalgamated in the future, the number of redundant officer will be corrected.	Arrangement should be made to maintain approved cadre and after re-reviewing the requirements of the staff should be revised and approved.
(b) The company had a stock of 56 metric tons of expired chemical fertilizers and 26.7 metric tons of sweeping fertilizer as at 31 March 2023 and the company had not been implemented a proper marketing plan regarding the disposal of this amount of fertilizer.	Agreed. It is planned to sell them considering the possibility of producing hybrid fertilizers based on that analytical report after sending the samples regarding organic fertilizers and expired chemical fertilizers, Sweeping fertilizers that are currently remained in the stock to the laboratory.	A proper marketing plan should be made for the relevant fertilizers.

- (c) According to the procurement committee's decision, one fertilizer transporter has been awarded a bid only for the transport of fertilizer to the fertilizer warehouse and related Agrarian Service Centers in a district or a province, it is observed that the transportation by the same transporter For the districts and provinces where transport was not granted. For example, it was observed that although bids were awarded and agreed only to transport fertilizers to the Potuvil Regional Fertilizer Warehouse and related Agrarian Service Centers in Ampara district, the fertilizer was transported to the regional fertilizers warehouses and related Agrarian Service Centers in Hambantota, Ratnapura, Kandy, Polonnaruwa, Puttalam, Mannar, Kilinochchi, Mullaitivu and Jaffna districts which were not awarded the bids.
- Agreed. Bidders have been registered for the transportation of fertilizers. The importation of fertilizers in the year 2022 had started from 2022.07.10. A 50Kg pack of urea fertilizer was sold at an exorbitant price of more than Rs.35,000. Getting fuel was difficult and large numbers of lorries have been got out of the run. Accordingly the responsibility to distribute the quantity of urea 26.400 metric tons to 380 Agrarian Service Centers immediately was assigned to the company. Although in the emergency situation, the transporters who do not provided lorries can be blacklisted and the transporters who offered the next lowest price can be registered, it will take some time for the company. The government will be incurred a loss in there through increase of the transportation cost and additional lorries will not be added. When a transporter did not supply lorries he was blacklisted and the transporter who offered the lowest price was given the opportunity to transport in the past. However the blacklisted transporter was filed a case against the company and applied for arbitration. This task has been determined subject to the approval of the Board of Directors. With the mend of the situation of the country, it was observed in the bill inspection (as a sample) that no lorries other than lorries of the registered transporters have been used at any time from the year 2023 Yala season until now.
- Transportation should be done as per the agreement.
- (d) According to the decision of the Board of Directors dated 26 February 2016, the construction work of the Kataragama resort has been temporarily stopped and by the end of the year under review, steps had not been taken to restart the construction work or use it for any other productive purpose, and the initial cost incurred for that was Rs.676,730 is further observed in the audit as idle expenditure.
- Agreed.
- Although a part of the land under the Divisional Secretary of Kataragama area was allocated and a security fence was built, the program of the construction of circuit bungalow was stopped due to a decision of the board of directors. Action will be taken to use this land for an effective purpose in the future.
- A strategic plan should be prepared and implemented so that maximum income can be earned from the resources of the company.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) After banning the import of chemical fertilizers, it had provided the opportunity to register fertilizer suppliers from regional warehouses and purchase organic and compost fertilizers from them under the program to purchase environmentally friendly fertilizers in conjunction with the implementation of the fertilizer policy of the government through the company's internal circular No. 2021/GM/02 dated 15 September 2021. It was observed that the fertilizer purchased in this way had been sold less quantity, and 902 MT had not been sold and was piled up in the warehouses by 31 March 2023.	Agreed. Thus, the remained stock of compost as at 2023.03.01 is currently being produced and sold as small packets of fertilizers for gardening and chemical organic hybrid fertilizers are being produced. (Organic and inorganic fertilizers)	Immediate action should be taken regarding the stock of fertilizer concerned.
(b) A requirement of 05 lac empty bags was decided to purchase the organic fertilizers produced the Army, Department of Civil Defence and other small-scale producers by the company under the eco-friendly organic fertilizer program and supply them to the farmers, and out of that 2 lac were purchased under emergency purchases through the supplier who had submitted the lowest price by calling bid from the registered suppliers in the year 2021, 200,000 empty bags purchase at Rs.68.98 each. Although an order was issued to purchase 200,000 bags under the emergency condition again on 23.09.2021, it was observed that the payments were suspended as the specifications of the bags which supplies related to the second order did not conform to the company's specifications. As such, 58,596 empty fertilizer bags worth Rs.2,909,094 purchased on the basis of emergency requirement had been piled up in the warehouse for more than 02 years at 30 January 2024 which the date of the audit. It is further observed that these empty bags are not capable of being used for any purpose of packing the other fertilizers due to print as COMPOST on them.	Agreed. The problem related to the specifications of the compost packs has been checked by the Bursting Test in the management committee and the problem regarding the quality has been resolved as the inspection has confirmed that there is no damage to the compost bag and no other effects. At present, there is a high demand and price for used WOP bags in the open market, therefore it is expected to be sold in bulk along with the polythene and once used empty bags which remained in the warehouses as per the procurement process. Accordingly, it is possible to cover the cost of buying this stock.	Alternative opportunities should be considered regarding the use of existing fertilizer bags.

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| (c) | It was contracted to buy organic liquid fertilizers produced by a private company and re-release them to the market under the name of "Corporation" by Ceylon Fertilizer Company Limited in the year 2017, Accordingly, a small amount of the obtained organic liquid fertilizers has been sold and the rest remained in the warehouses for a long time. The private company had been handed over 10,000 liters of the remaining amount of liquid fertilizer by the company to enrich organic liquid fertilizer and paid an advance amount of Rs.5,560,000 to that company. The concerned institution had not carried out any work related to the enrichment of organic liquid fertilizers as per the agreement. | Agreed.

Although an advance amount of Rs.5,560,000 was given to Bio Ingredients (Pvt) Ltd to enrich organic liquid fertilizers and 10,000 liters of liquid fertilizers were acquired, nevertheless, the related activities were not done. The advance given was written-off against the amount due for supply of special fertilizer in 2022 Yala season with their written consent. | Legal action should be taken regarding the violation of contract. |
| (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. | Agreed.

The land has already been valued by a Chartered Valuer in the year 2023/24 and adjustments will be made to the accounts in the 2023/24 accounting year. | The land should be valued and the value should be accounted |

4. Accountability and good governance

4.1 Presentation of financial statements

Audit Issue

Management Comment

Recommendation

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| (a) | Although the all public companies should prepare and submit the financial statements to the Auditor General within 60 days of the end of the financial year as per the Paragraph 6.6 of the Operational Manual issued with Public Enterprise Circular No.01/2021 dated 16 November 2021 of the Secretary of the Treasury, the financial statements of year 2022/2023 had been submitted to the Auditor General after 242 day of the end of the financial year. | Agreed.

The delay in the preparation of the 2021/22 final accounts affected the preparation of the 2022/23 financial statements and after receiving the Auditor General's Report for the year 2021/22, the opening balance of the financial statements of the year under review was recorded and submitted for audit. | Financial statements should be submitted on time as per circular instructions. |
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- (b) Although the Annual Report of the company should be tabled in Parliament within 05 months after the end of the accounting year as per the Paragraph No.6.6 of the Operational Manual issued with Public Enterprise Circular No.01/2021 dated 16 November 2021 of the Secretary of the Treasury, the Annual Report of the year 2023 was not tabled in Parliament by the date of the audit.
- Agreed. Since the Annual Report of the Company in the year 2023 should also include the audit report, the 2023 annual report has not been submitted so far.
- Action should be taken as per the circular instructions.

4.2 Effectiveness of Management Information System

Audit Issue	Management Comment	Recommendation
<p>Although the company has been spent 22,910,795 to replace and operate a computer system, the ability to prepare financial statements through the computer system purchased at a huge cost became problematic to the audit due to the fact that the financial statements and ledger accounts of the reviewed year were done manually and it was observed during the audit that the above computer system is not being used effectively.</p>	<p>Disagree.</p> <p>Enterprise Resource Planning software (ERP) has 100 percent reliability in processing final accounts, printing reports and checking the correctness of the system. Manual account preparation will also be done for several years. 100 percent of the information obtained has been taken from the ERP system itself. Accordingly, there has been no underutilization. The software is covered all sectors and covered all administrative and operational activities through this system. Accordingly, this system has been classified as follows and operated as integrated software.</p> <ul style="list-style-type: none"> • Inventory, accounting, payments for suppliers of all goods and services and employee payments, automatic processing of VAT for all income, processing of payments on daily labours and weight , payroll, human resource management, employee arrival/departure, way bridge software 	<p>The system should be established that it can be used to cover entire accounting process.</p>