

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Timber Corporation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 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 and Finance Act No. 38 of 1971. 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 Corporation as at 31 December 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4 Responsibilities of Auditor regarding the Audit of 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 Ministry'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 Corporation'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. However, future events or conditions may cause the Corporation 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

- 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and

- Whether the resources of the Corporation 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

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit the preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to the maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers, etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

The following observations are made.

| Non-compliance with the reference to particular Standard | Management Comment | Recommendation |
|---|---|---|
| (a) According to Paragraphs 31 and 51 of Sri Lanka Accounting Standard 16, assets should be revalued to show their fair value as at the reporting date in the financial statements and the residual value and the useful life of such assets should be reviewed at least once every financial year. However, the Corporation had not taken steps to revalue the present market value of the lands which were acquired by the Corporation since the year 1968 and shown in the financial statements as Rs.91,657,617, and to review the useful life of fully depreciated property, plant and equipment of Rs.844,535,194, which were further in use. | The future actions will be taken based on the consent of the Government Valuation Department for the revaluation of buildings and land and the approval of the Board of Directors regarding the fees charged. | Action should be taken to reassesses the useful life of the fully depreciated property plant and equipment and revalue the lands. |
| (b) According to the Accrual Concept and Paragraph 09 of the Sri Lanka Accounting Standard 18, the revenue should be measured by considering | The adjustments were not made to the accounts due to uncertainty of the amount further | It should be accounted and recovered as income, since it is a fee to be charged. |

received or fair value of receivables. However, except the value of Rs. 299,435 recovered only from one person, the remaining balance of Rs.2,695,083 had not been recognized as an receivable income during the year under review as per the directive of the Committee on Public Enterprise dated 22 April 2022 and the decision of the Board of Directors to immediately recover the loss of Rs.2,994,536 caused in the Halmillewa Teak site. Accordingly, the revenue and the current assets of the year under review had been understated by that amount.

recovered. It is informed that the amount paid so far had been adjusted to the accounts in the year 2023.

- (c) 03 cases with a compensation value of Rs.2,008,710 filled against the corporation and 04 cases those compensations were not recognized had been disclosed in the financial statement as the cases filled by the Corporation and actions were not taken to recognize the contingent liabilities and contingent assets in accordance with paragraphs 28 and 34 of Sri Lanka Accounting Standards No. 37.
- It is informed that this will be corrected in the future.
- Contingent liabilities and contingent assets should be identified properly and included in the financial statements by disclosing the existing cases accurately.
- (d) As per paragraph 09 of Sri Lanka Accounting Standards 02, although the closing stock should be valued on the cost or net realizable value whichever is lower, the profit and stock value in the financial statements were overstated by Rs.1,707,159 due to logs and sawn timber with the net realizable value of Rs.11,244,320 had been valued at those cost of Rs.12,951,479.
- In the Jaffna region, the cost of the stocks were Rs.8,161,246 and the net realizable value was Rs.6,730,021. The cost of the stocks in Boosa region was Rs.4,790,233 and the net realizable value was Rs.4,514,299.
- The closing stock should be valued on the basis of cost or net realizable value whichever is lower according to the Sri Lanka Accounting Standards 02.
- (e) According to paragraph 34 of Sri Lanka Accounting Standards 02, although the different of Rs.44,064,096 and cost of Rs.303,526,109 should be stated under expenditure and cost of sales
- It was informed that action will be taken to rectify the effect on gross profit in the next accounting process.
- The accounts should be adjusted as specified in the standard when the net realizable value is less than the cost.

respectively due to the cost of the stocks were Rs.303,526,109 and the cost of sales were Rs.259,462,014 in 09 regional offices, the gross profit and other expenditure were understated by Rs.44,064,096 each due to net value of Rs.259,642,014 had been adjusted to the cost of sales.

1.5.3 Accounting Policies

The following observation is made.

| Audit Observations | Management Comment | Recommendation |
|---|------------------------------------|---|
| <p>Although the First in – First out (FIFO) method is the stock valuation policy of the Corporation, there were very old timber stocks in depots. Although the stock should be valued as per applicable rates after carrying out an age analysis of those old timbers, it was not possible to confirm the correctness of the sawn timber stock in the financial statements at the end of the year under review due to certain timber stocks were calculated under the rates calculated in relation to sawn timber in the year 2022.</p> | <p>The answer is not relevant.</p> | <p>Since inventory valuation policy of the Corporation is the first-in, first-out (FIFO) method, the existing stocks should be classified according to time analysis and the stocks should be calculated according to the corresponding rates and account at the correct value and the stock should be issued on FIFO method.</p> |

1.5.4 Accounting Deficiencies

The following observations are made.

| Audit Observations | Management Comment | Recommendation |
|---|--|---|
| <p>(a) According to the special stock verification report conducted on 31 July 2022, 757 units of rejected sleepers, electric posts and fence posts at a cost Rs.2,622,900 in Kaldemulla Furniture Complex had not been accounted as closing stock.</p> | <p>The auction lots are prepared and sold by grading the rejected sleepers as A, B, C according to their condition. The payments are not made to the suppliers for poor quality elephant fence posts and electricity poles and those are sold as firewood.</p> | <p>Action should be taken to remove them from the accounts after inclusion in the final stock as these sleepers, electricity poles and fence posts incurring a cost same as quality products.</p> |

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|---|--|---|
| <p>(b) During the assessment of the auction stock of sawn timber belonging to Kappettipola warehouse at the end of the year under review, the final stocks were understated by Rs.1,501,748 due to calculating the stock of 40,068 cubic decimeters in 73 lots related to the year 2022 by using the unit rate of the year 2021 and the value of the final stocks were overstated by Rs.47,787 due to calculating the stock of 1,275 cubic decimeters in 02 lots related to the year 2021 by using the unit rate of the year 2022. Therefore, the total auction stock of Kappettipola Deport was understated by Rs.1,453,961.</p> | <p>Although 73 lots of sawn timber are prepared for auction in the year 2022 in the Kappettipola Deport, the majority of the timber included in the stock is sawn timber related to the year 2021. The 02 auction lots related to the year 2021 has been overstated by Rs.47,787 based on the rate of the year 2022.</p> | <p>All timber production should be calculated and accounted at the correct value using the rates of the relevant years by identifying the period of the timber stocks accurately.</p> |
| <p>(c) Action had not been taken account after entering it in the inventory books by investigate whether legal actions were completed regarding 148,178 cubic decimeters of logs found in forest offenses at the Ampara furniture manufacturing plant since 2009.</p> | <p>The instructions were given to follow the circular issued by the Deputy General Manager (Operations) regarding this forest offenses timber and sell it immediately if the legal proceedings are completed.</p> | <p>Action should be taken to ascertain whether the proceedings related to forest offence have been completed and they should be included in the inventory books.</p> |

1.5.5 Unauthorized Transactions

The following observation is made.

| Description of unauthorized transaction | Management Comment | Recommendation |
|--|---|---|
| <p>A sum of Rs.11,072,773 had been transferred from the retained earnings to the employees' revolving fund as the interest on staff loans without an approved journal voucher.</p> | <p>It was informed that action will be taken to correct during the year 2023.</p> | <p>Arrangements should be made to apply the relevant transfer notes through approved journal entries.</p> |

1.5.6 Inappropriate Valuation or Estimation

The following observations are made.

| Audit Issue | Management Comment | Recommendation |
|--|---|---|
| <p>(a) According to the estimate of the Department of Forest conservation, although the total timber harvest of Mullativu Murippu coupe is 1,550 cubic meters, the Corporation had estimated it as 700 cubic meters by estimating it as 850 cubic meters or 54.84 per cent less. Further, it was observed that the actual yield of section C of the coupe was an abnormal shortfall of 13,662 linear meters or 64 percent when compared with the estimate of the Department of Forest Conservation.</p> | <p>The State Timber Corporation had estimated the productivity of this coupe at 700 square meters by checking tree by tree and matching the existing physical conditions of the trees. At the time the Forest Conservation Department assigns the work site, it was given only the chest level of the trees and after the completion of the coupe, when the mass fraction is calculated by estimate the volume is given by taking the measurements of the samples.</p> <p>It was informed to the Department of Forests Conservation to correct the large variation between the two institute regarding the scale of timber in relation to this coupe.</p> | <p>Since the Department of Forest Conservation had given the volume estimate to the Assistant Regional Manager's office before starting the coupe, the accurate estimate should be prepared with due care and proper supervision.</p> |
| <p>(b) In land segregation of a coupe, the Corporation had followed an unrealistic methodology by including 15 common criteria that cannot be equally applied to every coupe and a wrong land classification had been done due to applying that methodology to the Mullaitivu Murippu Teak coupe. As a result, the contractors had to pay a high rate for the conversion of timber and it was observed that the Corporation incurs losses due to rising costs due to officers not performing their duties with due care.</p> | <p>The 15 general criteria are capable of accurately classifying relating to any coup. The certain items are classification of a normal cope and certain other items may be as difficult/extremely difficult. But as far as it concerned, according to the marks received for this work area, it is included in the category of over and above the extremely difficult limit.</p> | <p>Action should be taken to revise the existing system since it is not possible to ensure that a fair classification of a coupe will be obtained through the method of substituting the criteria introduced.</p> |

1.5.7 Lack of Documentary Evidences for Audit

The following observations are made.

| Item | Amount Rs. | Evidence not furnished | Management Comment | Recommendation |
|--|---------------|---|---|--|
| (a) Vehicle repair expenses | 63,777,998 | Vehicle details, assigned office, reason for repair, nature, expenditure and service provider | This information will be obtained from the regional office and forwarded soon and the Deputy General Manager (Internal Audit) was informed to investigate the delay in providing the information. | Action should be taken to provide the necessary information for the audit. |
| (b) Production and sales of sleepers from the year 2018 to the year 2022 | 32,346,175 | Production quantity, order quantity, completed amount, and amount receivable. | -do- | -do- |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

| Audit Observation | Management Comment | Recommendation |
|---|--|--|
| The amount receivable on 31 December 2022 for timber and timber related furniture provided on credit basis is Rs.908.87 million. and out of it, the outstanding debtors between 01 to 03 years were Rs. 430.86 million, and the debtors of 04 years and above were Rs. 59.85 million. The amount of debt to be collected from those institutions was Rs.770,799,748 due to sale of goods repeatedly on credit | A sum of Rs.603 million from Sri Lanka Railway Department and Rs.55 million from the Electricity Board are being recovered in installments for sleepers as our main buyers and good are being obtain again. 06 Government institutes are currently paying in | Action should be taken to update the internal control practices related to credit sales and cash collection activities.. |

to 24 institutions those were not paid installments. the loan amounts and It was observed that the reasons such as not entering into agreements with government agencies and not charging a late fee of 10 per cent, not reporting monthly sales and recovery progress by maintaining formal documents, not keeping the updated computer data system etc were affected the non-recovery of loan balances from debtors.

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

The following observations are made.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|---|--|---|---|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| i. Financial Regulation 110 | The Register of Losses and Damages of the Corporation had not been maintained in an updated manner. | It was informed that the register of Losses and Damages is being updated currently. | The Register of Losses and Damages should be updated and maintained as per Financial Regulations. |
| ii. Financial Regulation 1646 | The Daily running charts of 39 vehicles pertaining to the years 2021 and 2022 had not been submitted to the audit. | It can be able to submit those running charts any time as required. | Action should be taken as per Financial Regulations, Although the daily running charts of the month shall be furnished to the Auditor General together with the original copy of the monthly summary of |

- journeys before the 15 day of the following month.
- (b) Paragraph 6.6 of the Public Enterprises Circular No.1/2021 dated 16 November 2021
- The draft annual report, which should be submitted to the Auditor General with the financial statements within 60 days of the end of the accounting year, had not been submitted by 10 July 2023.
- It was informed that the Draft Annual Report for the year 2022 will be submitted immediately.
- The Draft Annual Report should be submitted to the Auditor General along with the financial statements. According to the circular provisions.
- (c) Public Administration Circular No.26/92 dated 19 August 1992.
- The state emblem had not been printed on vehicles of the Corporation.
- It was informed that arrangements will be made to apply the state emblem in the future.
- Since it is mandatory to apply the state emblem on the government vehicles according to the circular, it should be done accordingly.
- (d) Public Enterprises Circular No.1/2015 dated 25 May 2015
- i. Paragraphs 3.1, 3.2.1 and 3.2.2
- Monthly amount of fuel should be given as allowance to use official vehicles and the actual fuel cost incurred should be reimbursed after obtaining prior approval only in special cases where the allowance is not sufficient. However, the fuel allowance was given as an advance on the monthly reimbursement basis and the relevant approval was obtained by taking advance and bearing the expenses in
- It is kindly informed that a system is being prepared to correct the matters mentioned here in the future.
- The monthly amount of fuel entitled to the officers should be given as an allowance and if the allowance is exceeded, arrangements should be made to recover it.

cases where the advance was not sufficient. It was observed that most of the related journeys were travels for private purposes.

ii. Paragraph 3.1

Although the maximum amount of fuel that the chairman of the Corporation can use per month is 170 liters, the former Chairman used 03 vehicles and obtained 705 liters more than the limit of 170 liters of fuel per month in the years 2020 and 2021.

This situation has now been corrected since this situation has not arisen with the subsequent chairmen.

The loss incurred to the Corporation by the former chairman should be recovered.

(e) Extraordinary Gazette No.178/10 dated 05 February 1982.

The Corporation had failed to establish a sufficient system and control to carry out the export of wooden-based finished and partly finished items, which is one of its objectives.

The answer submitted is not relevant to the observation.

The necessary strategic plans should be prepared and adequate systems and control should be established in order to achieve the objectives of the Corporation.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.315,881,323 and the corresponding profit in the preceding year amounted to Rs.1,136,211,699. Therefore a deterioration amounting to Rs.820,330,376 of the financial result was observed. The reasons for the deterioration are decrease in sales revenue by Rs.952,613,427 and the increase in expenses of the year by Rs.438,712,744.

2.2 Trend Analysis of major Income and Expenditure items

In the year under review, sales revenue decreased by 16 percent, while selling and distribution expenses by 46 percent, and administration expenses by 14.9 percent, and financial expenses by 6.7 percent, and total expenses increased by 28 percent. Due to this, the net profit ratio which was 19.9 percent in the preceding year had decreased by 66 percent to 6.6 percent in the year under review.

3. Operational Review

3.1 Uneconomic Transactions

The following observations are made.

| Audit Observation | Management Comment | Recommendation |
|---|--|---|
| Although the electric fence was constructed in the year 2018 at a cost of Rs.993,751 to cover the Timber Depot of Oddusudan, situated in an area with the large population of elephants, it remained without functioning from the beginning. However, no action had been taken to get the fence repaired by the relevant contractor or to take action against him. As a result, the expenditure incurred thereon had become idle and there was a risk of damage from the elephants to the depot and officers. | Instructions have been given to do it from another contractor and not to release the retention money since the concerned contractor had not completed this work. | The elephant fence should be repaired and maintained. |

3.2 Identified Losses

The following observations are made.

| Audit Observation | Management Comment | Recommendation |
|---|---|--|
| (a) According to the conditions of the agreement entered into by the Corporation with that Electricity Board for to supply of Eucalyptus electricity poles, liquidated damages had to be paid at the rate of 0.1 percent per day subject to a maximum of 10 percent due to the inability to supply electric poles on the due date. Accordingly, it was observed that the Corporation had paid such late charges of Rs.8,402,314 during the period from 2011 to 2016 due to the inefficiency of the employees. | The orders had been accepted in previous years with the expectation of supplying from the stocks available at the time of accepting the orders and the rest from the electricity poles produced annually. A major factor contributing to the delay in completion of orders is the annual shortage in supply of standard length poles from forestry and private suppliers. However, electricity poles are being provided without late fees since 2017 by consultation with the officials of the Ceylon Electricity Board. | Necessary actions should be taken to provide electricity poles according to the agreement and to introduce the necessary methods to increase the efficiency of the officers. |

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|--|--|--|
| <p>(b) The sawing of timber required for the Boossa furniture factory is done by Weheran Machine and Macwood machine and it was observed that there is a high rate of tomber waste from 47.3 per cent to 64.2 per cent. The timber waste that occurred from 2019 to 2022 was 857,940 cubic decimeters.</p> | <p>The sawmill is selected based on the condition and type of logs. Although the timber wast is low in sawing hard wood such as blackwood, kumbuk, palu and rattan are cutting by high-tech woodmac or other machines, the best machine to use is the Veheran Machine since transformation is very difficult. But wood like teak, jackfruit, sandalwood etc. are not converted by Veheran Machine as it takes a lot of time and increases wastage of timber. While fixing the price, the amount of wastage has been fixed at 66 percent the yield is on average 33 per cent due to major defects such as splitting and cracking of Ebony wood. The percentage of yield that can be obtained is at a reasonable level in normally, because the Woodmac Machine is a highly technical machine.</p> | <p>Arrangement should be made to use machines and methods that minimize timber waste during the conversion of timber.</p> |
| <p>(c) Due to due to the failure to take disciplinary action against the employees who were accused of an irregularity that occurred in the year 2017 at the Gomadiyagala 01/22 teak coupe and the management had also take actions to grant promotions to those officials.</p> | <p>The Board of Directors had informed them to conduct a disciplinary inquiry due to release the relevant officials without conducting a formal disciplinary inquiry.</p> | <p>Actions should be taken to establish a strong internal control system to prevent malpractice, take formal disciplinary action against accused employees and regularize the promotion procedure.</p> |
| <p>(d) The steps were taken to stack the wood and sell it at a low price in the public auction in order to reduce the stock accumulated in the Bussa and Ampara factories. the Corporation has incurred a loss of Rs.959,398 in this way, by selling 49 lots valued at Rs.1,902,698 for Rs.943,300 in the year 2020 and it was also observed</p> | <p>The sawn timber is produced according to customer orders and under popular dimensions as well as dimensions required for furniture production. So that, by-products which were not popular demand are sold at a lower price without base on the fixed prices in the price list by consider the</p> | <p>As popular and unpopular sizes of timber are in stock, a suitable system should be developed to effectively sell or auction excess timber at appropriate prices in time.</p> |

that there is a possibility to incur a loss of at least Rs.28,078,991 from the un-auctioned 191 lots with a cost of Rs.49,823,171 which auctioning vale were Rs.21,744,180. condition of the timber which are prepared as stacks and given publicity through auctions and sold at a lower grade price.

3.3 Management Inefficiencies

The following observations are made.

| Audit observations | Management Comment | Recommendation |
|---|--|--|
| (a) In 1987, 15 percent of the estimated amount of Rs.400,000 was deposited with the Divisional Secretary for the purchase of the 0.5033 hectare land where the Corporation's Kurunegala Regional Office and Timber Warehouse is located. Ignoring it and 15 years later in the year 2002, Rs.12,000,000. Paid to the owner and due to ignoring the notice given by the Divisional Secretary to acquire the land, according to an appeal court judgment in 2019, an amount of Rs.32,005,946 with compensation and legal interest had to be paid to the Divisional Secretary. Further, it was a controversial matter that the Divisional Secretary had paid only Rs.24,414,578 to the land owned company and retained a sum of Rs.7,591,369 without hand over the land to the Corporation. | Although according to the decision of the Court of Appeal year 2019 and to the gazette published by the government, the legal interest had been prepared and an amount of Rs.32,005,946 had been paid, the Divisional Secretary had paid the owner of the Mall Company, Rs.24,414,578 only. It had been informed that the Divisional Secretary the remaining amount should be paid to the Corporation immediately. | Arrangements should be made to obtain the ownership of the land where the Kurunegala Divisional Office is located, and if an excess amount had been paid to the Divisional Secretary, arrangements should also be made to recover that amount. |
| (b) A Dell Laptop, a Samsung Tab, and one Samsung Mobile phone used by the former Chairman of the Corporation who was Chairman from 09 January 2020 to 10 March 2022 had not been handed over to the Corporation. However, the total amount of Rs.532,949 to be recovered from the officer, including the calculated market value of Rs.529,199 and the 25 percent expenditure to be incurred for the reacquisition had not been recovered. | Hereby inform that the total amount of Rs.532,949 along with 25 per cent of the cost to acquire these goods or its current value has not been paid to the Corporation so far. | Necessary action should be taken to acquire the relevant assets or recover the market value. |

- (c) According to the proposal for the establishment of a furniture showroom in Nuwara Eliya District, the Rikillagaskada town and the building situated in the town had been selected based on the recommendations made by a committee consisting of two officers without conducting a feasibility study. Accordingly, the showroom had been maintained in that building obtained on the payment of Rs.1,200,000 lease rent for a period of 15 months at a monthly rental of Rs.80,000 from March 2021. However, the showroom, which was running at a loss of Rs.9,016,761 during that period, was closed down on 18 June 2022. The income and expenditure records of the showroom were not submitted, and therefore, it was not possible to recognize, in advance, that the showroom was running at a loss.
- As per the recommendations given by the committee and the instructions of the Honorable Minister, the showroom had been started with the approval of the Board of Directors. Matters had been submitted to the Board of Directors regarding the running of the showroom at a loss and arrangements had been made to close the showroom on 18 June 2022.
- Before starting a new project, a formal feasibility study should be carried out on its suitability and its productivity should be checked and the accounts should be set up in a timely manner.
- (d) Forecasting the production requirement based on the annual sales requirement, adopting good stock control techniques and maintaining regular and adequate warehouses, establishing an efficient production process due to the lack of attention of the top management, the cost of production from the year 2012 to 31 July 2022 was Rs.68,239,793 surplus furniture stock, 32 furniture items worth Rs.7,152,896 which were not sold in the year 2022 and 12 furniture items worth Rs.3,132,000 which are selling very slowly, and which are produced from the year 2012 to the year 2021. A stock of furniture valued at Rs.20,474,207 which were received without polishing and also present in the Bussa warehouse of the showroom and the manufacturing factory.
- This situation will not occur in the future as only the furniture items that are in high demand and included in the sales plan are being manufactured at present. The amount of furniture that was not polished so far is being polished and released to the showroom, based on the orders received from the sales department.
- The top management should be given attention to making production forecasts based on annual sales requirements, establishing an efficient production process and maintaining proper and adequate storage.

3.4 Operational Inefficiencies

The following observations are made.

| Audit observations | Management Comment | Recommendation |
|---|--|---|
| (a) There were 35 stocks(Lots) of illicit sawn timber, inclusive of 2,570 pieces, with sales value of Rs.3,420,427 retained idle in the Keppetipola Deport without the forest offense numbers or issuing notice number form the forest or other written evidence. | Since the relevant detailed of sawn timber had not been given to the marketing division, the activities related to sale had not been done so far. It had been arranged to bring the information promptly and take the next steps and inquire from the relevant officials regarding the non-reporting of the sawn timber. | Information regarding offense timber available in every depots should be brought immediately. The timber should be disposed as per the instructions given by the Judicial Service Commission. |
| (b) Since the Weheran sawn machine that remained inoperative in the Boralanda Deport since 2019 without being repaired, it had interrupted the sawing process of logs exceeding 4feet in diameter. Accordingly, it was observed that the sawing waste was very high due to using CHAIN SAW for that purpose. | This Veheran machine was established in 2004. It has become difficult to repair because the manufacturing companies have now turned to the production of new machines with new technology. But considering the overall effectiveness of wood chipping, chain sawing of logs over 4 ft. with a woodmizer is the acceptable method to use in this situation. | The performance of the machines should be constantly monitored and necessary measures should be taken to carry out timely repairs and maintenance and to use other more effective alternatives. |
| (c) The 40 hectare Murippu teak plantation under the Mullaitivu Divisional Forest Office was handed over to the State Timber Corporation in November 2021 for full felling and should have been handed over to the Forestry Department by 31 August 2022 after completion of the work. However, due to various irregularities, such as non-completion of the felling, retaining logs without numbering, not updating the registers with correct data, the harvest is under-documentations, discrepancies in numbers on notices and logs, and trees left in different places without cutting, the Corporation had failed to complete the relevant work despite | Due to the irregularities that have occurred at the Murippu coupe, the Assistant Regional Manager and the coupe Officer had been interdicted and investigations and audits are being carried out. At present, the work is being completed at the coupe, and further action will be taken after the investigation. | Disciplinary investigations related to the irregularity should be conducted formally and reports should be submitted on its progress and internal control measures should be developed to prevent such irregularities from happening again. |

after laps of nearly 02 years by 16 May 2023.

- (d) Although the Corporation had estimated the number of labour hours spent for furniture manufacturing, there was no methodology put in place to evaluate the efficiency and the productivity of the laboures by comparing with the actual number of labour hours spent. Accordingly, it was not possible to confirm that the laboures had been employed efficiently and effectively.
- When a production line is running, instructions had been given to factories to measure and record the work done by each employee, but in some cases it seems not to have been followed, so a committee had been appointed to prepare a follow-up system.
- A system should be developed to measure employee efficiency and productivity and furniture costs should be calculated based on the actual labor hours spent on furniture production.
- (e) The production of furniture in the Bossa manufactory is outsourced to outside contractors on short-term work agreements, and the part payments of Rs.10,322,050 had been made to 69 contractors during the period from 2013 to 2022 for this purpose. However, due to management's failure to get the relevant works completed within the contracted period, bids had to be reissued for certain tasks, and the Corporation's employees had to be deployed to complete some of the work. As a result, excess time and additional costs had been incurred for these tasks.
- The production of traditional furniture in the Boussa Complex is carried out by external carpenters on a contractual basis and a certain percentage is paid based on the completed work. It has been directed to complete the parts that were not completed within the stipulated contract period, re-call the prices and hand over them to new contractors, and in some cases, the rest of the work has been done by the employees of the corporation.
- Necessary action should be taken to complete the work within the contract period from the contractors while manufacturing the furniture.
- (f) The value of the work-in-progress over a period from 01 to 10 years was Rs.21,689,756 due to the failure to award contracts in the Bussa manufactory to skilled and appropriate contractors and irregular planning of the manufactory, .Further, the value of the unused timber stock as at 31 July 2022was Rs.65.5 million, resulting from the failure to identify timely requirements and implement sales promotions.
- Currently, the production of partially manufactured furniture is being completed as soon as possible, so that this situation does not occur in the future.
- Arrangement should be made to complete the work-in-progress and sell them, and to plan production activities based on identify the requirements, and to hand over contracts to capable and suitable contractors and marketing activities should be promoted and products should be made efficient.

- (g) During the period from 2019 to 2022, the amount of wood used for the conversion of Ampara Saw Mill is 3,512,926 cubic decimeters and the amount of wood obtained is 1,806,397 cubic decimeters. As a result of which the waste during the conversion of wood was 1,706,529 cubic decimeters or 49 per cent. During that period, it was observed that 454,496 cubic decimeters of wood were released 32 per cent more than the requirement for certain tasks, it was also observed that a large stock of sown timber of 3,718,422 cubic decimeters worth Rs.295,712,614 was piled up due to lack of proper arrangement for efficient use.
- Bullet pieces and iron pieces are common in the trunks received from Toppigala workshops, there is a diameter of about 1.2 inches in the trunks, defects are removed according to the order specifications and furniture is manufactured, irregularly transformed and various defects are removed and the good amount of wood is separated for furniture production. The rate of wastage is high depending on the presence of referrals. Timber is converted and seasoned and some stock is maintained in anticipation of future orders.
- Appropriate measures should be taken to prevent wood wastage and increase production efficiency by using suitable timber and efficient wood conversion techniques to achieve maximum productivity.
- (h) As the partly completed 6,133 units of items worth Rs.98,476,655 of which fittings had been completed before 2018, were not completed and transferred, the Ampara factory had faced savior issues in future productions.
- Due to the lack of workers, polishing work could not be done at the speed of mechanical and assembling work. As per the restructuring plan of the Ampara factory, a system is being installed to take the half-finished products to the Kaldemulla factory where they are assembled, polished and sold.
- Proper solutions should be found for the existing problems and the half-finished products should be completed and sold.
- (i) Although employees of the Corporation were involved in the production of Finger Joint furniture items, there was no proper control system in place to evaluate their efficiency and performance. As a result, there were delays in completing orders on time due to inefficiency, leading to the cancellation of an order for 1,050 boards. Further, the sale of furniture manufactured using Finger Joint boards was at a minimum level.
- So far all the orders received to the Finger Joint unit had been completed. The production of these 1,050 boards to be sent to the Ampara Factory had been stopped and the remaining timber not used for production was used for the production of furniture which could be sold through showrooms. Finger Joint is produced only on orders received.
- The Finger Joint furniture production should be done only on orders and necessary steps should be taken to complete and sell the products that are currently being made.

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| (j) There were 16,088 cubic decimeters of illicitly sawn timber involved in forest offence worth Rs.1,219,620 that continued to exist from the year 2019, and 158,274 cubic decimeters of stock of illicitly timber logs involved in forest offence worth Rs.1,932,541 in the Ampara manufactory without being taken required measures on the timber involved in forest crimes as per the instructions given by the Judiciary Services Commission circular No.422 dated 10 October 2018. | A part of the stock of timber had been released in connection with the courts, and the necessary activities to release the remaining amount are being carried out by the regional manager. The appropriate amount of wood had been saved for conversion and the remaining wood had been sent to the Ampara warehouse for sale. | In relation to forest offence wood, the commission should follow the instructions given in the circular and reduce the damage caused to the wood and use it for production purposes or sell it. |
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3.5 Transactions of Contentious Nature

The following observation is made.

| Audit observations | Management Comment | Recommendation |
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| As per the Guideline 6.2.2 of the Government Procurement Guidelines, a minimum bidding period of 21 days should be given when calling for national bids. However, for felling 1720 Teak trees in 01/008 coupe c covering 06 hectares in Kurunegala, Polpithigama beets, bids had been called on 03 occasions. On 02 occasions, a bidding period shorter than the prescribed bidding period was given, and at the third bidding, the contract for removing the total number of trees, including already removed 290 trees, was awarded to the bidder who had been selected, but not entered into agreements during the first bidding. Therefore, this matter had become a subject of controversy. | All relevant files had been handed over to the Bribery and Corruption Investigation Commission for the purpose of investigation. Therefore, it had not been possible to get answers for this and the Regional Manager (Kurunegala) had been told to go to the Bribery or Corruption Commission and obtain photocopies of the information and necessary documents related to the audit inquiry and submit them to me. | In accordance with the provisions of the Government Procurement Guidelines 2006, a strong control system should be established to prevent possible irregularities. |

3.6 Procurement Management

The following observation is made.

| Audit observations | Management Comment | Recommendation |
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| A formal procurement committee and a technical evaluation committee should be appointed and formal purchases should be made in accordance with guidelines 2.7.7, 2.8.5, 2.11.3 and 6.3.1(a) of the procurement guidelines. But contrary to that, quotations were obtained by fax and goods worth Rs.1,101,875 were purchased for the Boossa factory complex on 03 occasions. | As per the instructions given that there should be two separate committees for the opening of the quotation in the Boossa complex and for the work of the procurement board, the procurement activities are currently going on. For very urgent purchases, had to get printed prices by fax, and would like to inform you that measures will be taken to correct this in the future. | Procurement should be done in accordance with the instructions of the Government Procurement Guidelines. |

3.7 Human Resources Management

The following observation is made.

| Audit observations | Management Comment | Recommendation |
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| Due to not following a specific policy in the selection of officers for training, the same group of individuals had participated in various training programs every year. As a result, the knowledge and skills development process of the officers in the Corporation was not observed to be carried out properly. | The necessary training is provided according to notifications at the beginning of the year to cover all employees for training under three categories. During the year, the employees will be referred for training, based on the service requirement of the organization. | A formal and specific policy should be developed for selection of officers for training and training should be made mandatory for officers. |