

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Colombo Commercial Fertilizer Company Ltd (“Company”) for the three months ended 30 June 2024 comprising the statement of financial position as at 30 June 2024 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 30 June 2024, 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 with Sri Lanka Accounting Standards

Non-compliance with reference to the relevant Standard	Management's Comments	Recommendation
(a) An amount of Rs.37,384,363, which was identified as provisions for impairment losses in the year 2018, had been continuously deducted from the debtor balance since that year without making provision for impairment losses relating to the period under review in accordance with paragraph 96 of Sri Lanka Accounting Standards No.36.	Although a debtor age analysis has been carried out provision for impairment has not been made for the relevant period. This issue has been referred to the committee appointed to investigate debtor balances and actions are being taken to identify the impairment risks to be identified for impairment provision. Apart from the impairment provision of Rs.37,384,363 mentioned above, provision for impairment has not been made for the relevant period as the other debtors are mainly Agrarian Service Centres.	Provisions for impairment should be made.
(b) The total value of interest receivable from the Treasury, recoverable claim and receipts on imports amounting to Rs.188,714,753 had not been collected for many years and the necessary adjustments had not been made in accordance with Sri Lanka Accounting Standards No.36 in relation to those balances.	Provision for impairment cannot be made for the interest amount of Rs.185,830,554 due from the Treasury until the Treasury refuses payment in writing. Other recoverable compensation and receipts on import will be referred to the above-mentioned Debt Collection Committee for settlement.	Necessary provisions should be made in respect of uncollected balances as per the Standard.

1.5.2 Accounting Deficiencies

Audit Observations	Management's Comments	Recommendation
(a) Although the depreciation value of the vehicles, amounted to Rs.32,332,609 which completed the lease payment was Rs.1,007,625, due to the fact that only Rs.255,374 was included in the financial statements the profit for the period and the value of the motor vehicles had been overstated by Rs.752,251.	Agreed with the audit query. Action will be taken to correct it in the future.	Depreciation value should be accurately calculated and accounted.
(b) As per an agreement entered into with the Tea Small Holdings Development Authority, the value of Rs.2,000	Tea fertilizer is sold to the Tea Small Holdings Development Authority at a subsidized price and the Tea Small	Income and expenses related to

	provided by the government from the selling price of a 50 kg mixed fertilizer bag sold by the company was not included in the company's financial statements as sales and was deducted as fertilizer subsidy when calculating the cost of sales and, resulting in an understatement of the sales value by Rs.76,440,000 in the financial statements.	Holdings Development Authority provides a subsidy of Rs.2000 per bag to our company to offset the cost incurred by the company. The sales amount given against our VAT invoices for the sale of the fertilizer is recorded in the company's books of accounts as sales and VAT payable, and the subsidy amount provided by the Tea Small Holdings Development Authority was recorded in the same way as in previous periods when the government subsidy amount was received, by deducting it from the cost of sales.	the period should be accurately identified.
(c)	Although the depreciation of leased assets of Rs.255,374 was included in the depreciation for the period under review, since it was deducted again in the cash flow statement, cash flow generated from operating activities had been overstated by that amount.	Agreed with the audit query. Action will be taken to correct it in the future.	Relevant adjustments to the cash flow statement should be made correctly.
(d)	Due to the underestimation of Rs.158,432 in the calculation of fixed deposit interest income, the profit for the period under review has been understated by that amount.	This is due to the fact that the investment period of one fixed deposit was shown 02 days less. Actions will be taken to correct this.	Fixed deposit interest income should be accounted correctly.
(e)	Cash flow generated from investing activities has been overstated by Rs.143,582,425 due to the inclusion of interest income receivable of Rs.70,044,062 and interest income capitalized on fixed deposits of Rs.73,538,362 in the cash flow statement under interest income.	For the past several years, the company's interest income has been presented in the cash flow statement using the gross interest income method. Action will be taken in the future as per the audit recommendation.	Interest income related to the period should be accounted correctly.
(f)	The value of lease payments made during the period under review was Rs.511,596 and since the cash flow statement shows it as Rs.866,861, cash flow from financing activities had been undervalued by Rs.355,265.	The Company's current and non-current lease liabilities are presented in the financial statements as per the lease payment schedule prepared by the bank. During the period under review, the lease payment amount directly recovered from our account by the bank was lower than the amount in the original schedule. The	Correct lease payments value should be accounted.

bank stated that this was due to errors in the original lease payment schedule provided. Therefore, this was due to the lease payment amount paid in cash was lower by Rs.355,265 than the current liability recorded as the lease amount in the statement of financial position.

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| (g) | Due to the fact that fuel expenses of Rs.336,401 relating to the month of March 2024 were accounted as expenses of the period under review, the profit for the period under review has been understated by that amount. | Due to non-receipt of the relevant bills by the accounting department on the due date, this fuel expense could not be accrued for the financial year 2024. Therefore, it was accounted for the last quarter on 30/06/2024. | Expenses related to the period should be accurately accounted. |
| (h) | Although the total vehicle insurance premium paid during the period under review of Rs.475,457 was recognized as an expense for the period in the financial statements, due to the inclusion of Rs.368,039 relating to the next financial year, the profit for the period had been reduced by that amount. | This is an accounting error. Action will be taken to correct it. | Expenses related to the period should be accurately accounted. |
| (i) | Due to the fact that the electricity bill of Rs.574,814, water bill of Rs.35,345, telephone bill of Rs.73,342 and security fee bill of Rs.581,905 accrued for the month of June 2024 were not accounted , the profit for the period under review has been overstated by Rs.1,068,669, and the value added tax on inputs by Rs.196,737 and non-current liabilities by Rs.1,265,406 had been understated. | Agree with the audit query. Action will be taken to correct it in the future. | Expenses related to the period should be accurately identified and accounted. |
| (j) | Due to the fact that the payments related to professional fees, salaries, allowances and fuel expenses, which amounted to Rs.905,848 in total for previous years, had been accounted for as expenses in the year under review, the profit for the year had been undervalued by that amount. | This expense has been stated as an expense in the period under review as it was not accrued in previous periods. | Expenses related to the period should be identified and accounted. |

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| (k) | It was observed that, although the cash flow statement shows Rs.73,879,865 as taxes paid, the actual income tax paid during the period under review was Rs.64,563,061, resulting in an understatement of the net cash flow generated from operating activities by Rs.9,316,804. | The total income tax payable is Rs.73,879,865 and out of which Rs.64,563,061 is income tax paid in cash, and the remaining amount of Rs.9,316,804 is tax credit offset against withholding taxes. | The correct tax value for the period should be included in the financial statements. |
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1.5.3 Documentary evidences not made available for Audit

Audit Observations	Management's Comments	Recommendation
(a) Although the company's financial statements showed a short-term bank loan value of Rs.32,438,030 under current liabilities, such a loan value was not included in the loan balance confirmation letters submitted by the bank.	The total amount of loan converted into loan due to delays in receipt of funds from the Treasury to settle fertilizer import bills is Rs.8,925,525,813. This loan is presented as current and non-current liabilities in accounting. The current bank loan, including the Rs.32,438,030 mentioned in this audit query, is Rs.4,126,480,636. The total non-current liabilities is Rs.4,799,045,177. The balance confirmation for this current loan is contained in the balance confirmation letters provided for the total loan amount of Rs.8,925,525,813 above.	Loan balance confirmation letters should be obtained.
(b) Although the trade receivables include a balance of Rs.5,983,717 from Ceylon Fertilizer Company Limited and a balance of Rs.960,000 in other receivables, such payable was not reflected in the accounts of Ceylon Fertilizer Company Limited. Accordingly, the audit observed an uncertain situation regarding the existence of those balances.	Further checking will be carried out and corrective actions will be taken in the future.	Receivable balances should be identified and accounted.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observations	Management's Comments	Recommendation
(a) No balance confirmation or action had been taken to recover the outstanding loan balances of more than 5 years,	A committee has been appointed to deal with the unsettled debtor balances of the newly merged	Action should be taken to recover the outstanding loan

	totalling Rs.4,917,722, owed to the company by 25 Agrarian Service Centres.	company and necessary actions are being taken to resolve the balances mentioned in this audit query through it.	balances.
(b)	There was a debtor balance of Rs.11,060,135 due from various government institutions for providing fertilizer on a loan basis, which was more than 05 years old, and action had not been taken to recover that balance.	A committee has been appointed to deal with the unsettled debtor balances of the newly merged company and necessary actions are being taken to resolve the balances mentioned in this audit query through it.	Action should be taken to recover outstanding loan balances.
(c)	Although Rs.3,914,000 of the unidentified direct deposits of Rs.4,293,639 received into the company's bank account had been received between the year 2017 and 2021, action had not been taken to settle those receipts and had been included under current liabilities as of the audit date.	When making direct remittances to the company's bank account to obtain fertilizer, we have informed customers to make direct remittances by recording the customer's name so that the customer can be identified. However, in cases where this is not done, the customer is identified by contacting the relevant bank over the phone. This audit query states that a balance that could not be resolved accordingly. The action to be taken for these balances will be presented to the Audit and Management Committee for a recommendation and action will be taken accordingly in the future.	Direct deposits should be accurately identified and accounted.
(d)	It was observed that the Customer Deposit & Over Received balance of Rs.23,194,728 shown under Current Liabilities in the Financial Statements was a collection of 214 balances that had been outstanding for many years due to the sale of fertilizer by the company, and action had not been taken to verify and settle these balances.	No answers were given.	Outstanding loan balances should be settled.
(e)	Action had not been taken to verify the accuracy of the debtor balance of Rs.68,175,792 due from 96 distributors for over 05 years and to settle that balance.	A committee has been appointed to deal with the debtor balances of the newly merged company and necessary actions are being taken to resolve the balances mentioned in this audit query through it.	Action should be taken to settle outstanding loan balances.

1.6.2 Payables

	Audit Observations	Management's Comments	Recommendation
(a)	The amount of Rs.157,570,000 related to the month of June, which had been agreed to be remitted to the Treasury in instalments from the amount of Rs.1,260,600,000 in respect of 11,460 MT of fertilizer taken over by the Company from the MOP fertilizer stock imported under the Asian Development Bank loan assistance in accordance with the Cabinet decision dated 07 May 2024 had not been remitted to the Treasury.	No answers were given.	The value of the loan assistance for fertilizer should be remitted to the Treasury.
(b)	The government contribution amount of Rs.2,112,468,040 for the subsidized fertilizer that was allowed to be sold in the open market, which was left with the company as at 29 February 2016 had not been remitted to the treasury and had been shown as a payable balance for more than 05 years and various expenses of the company were written off against this balance and the balance was shown as Rs.1,332,367,014 in the financial statements as at 30.06.2025.	Although there have been several discussions to resolve the issue of this balance, it was revealed that there is no information in the accounts of the General Treasury regarding this. This balance has decreased due to the written off the subsidy amount and reimbursements to be paid to the company by the General Treasury to these accounts. However, discussions are ongoing with the General Treasury to resolve this balance.	Remittances to the Treasury should be properly settled.

2. Financial Review

2.1 Financial Results

The operating result for the period under review was a loss of Rs.40,815,855, and the corresponding profit for the three months of the previous year was Rs.138,714,540.(Previous year profit /4) Accordingly, a decline of Rs.179,530,395 was observed in the financial result. This decline was mainly due to the compensation paid to employees who left the service under the Compulsory Retirement Compensation Scheme.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observations	Management's Comments	Recommendation
(a)	Although an initial expenditure of Rs.3,732,901 was incurred in the year 2018 for the construction of a	With the aim of further enhancing the efficiency of fertilizer distribution throughout the country during the	Resources should be utilized effectively.

warehouse on the Hambantota leased land, construction has not been carried out on that land so far and it remains idle and, an annual rent of Rs.331,632 had been paid until the year 2024 in accordance with the lease agreement entered into for that land. Accordingly, the uneconomic rent incurred in relation to the three-month period under review is an expenditure of Rs.82,908 and although it has been decided that there is no need to construct a warehouse on this land at present, action had not been taken to hand over this land by the date of audit.

period of subsidized fertilizer distribution, this Hambantota land was acquired under a lease agreement to carry out the task of bringing fertilizer to the Hambantota Port, storing it in the warehouses proposed to be constructed on this Hambantota leased land and distributing it to nearby areas. However, due to the change in the subsidized fertilizer policies and the suppliers not submitting bids for the issuance of fertilizer to the Hambantota Port, this purpose could not be implemented. At this time, after explaining the relevant matter to the Board of Directors, this leased land has been transferred back to the Mahaweli Authority.

- (b) Although the company had a balance of Rs.130,323,110 in its bank accounts as at the end of the period, the company had paid Rs.2,315,872 as overdraft interest expenses to the Bank of Ceylon and People's Bank during the three-month period under review.

Our company, as a company engaged in commercial activities, has provided bank overdraft facilities under the People's Bank and the Bank of Ceylon for our current accounts. This short-term bank overdraft facility was used for the initial working capital requirements of the mixed fertilizer project initiated under the agreement with the Tea Development Board. These bank overdrafts were settled from the provisions received with the sale of fertilizer and at present, there is a credit balance in the bank current accounts of the company.

Financial management should be carried out prudently.