

## **Colombo Commercial Fertilizer Limited – 2010/11**

### **1. Financial Statements**

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#### **1:1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Colombo Commercial Fertilizer Limited had maintained proper accounting records for the year ended 31 March 2011 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Colombo Commercial Fertilizer Limited as at 31 March 2011 and the financial results of its operation and cash flows for the year then ended.

#### **1:2 Comments on Financial Statements**

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##### **1:2:1 Delay in the Presentation of Financial Statements**

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According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be prepared and presented to audit within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year 2010/2011 had been presented to audit only on 14 November 2011.

##### **1:2:2 Accounting Deficiencies**

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The following observations are made.

- (a) The Turnover Tax relating to 04 Provincial Councils for the year under review had been under-computed by a sum of Rs.132,318.
- (b) The Turnover Tax amounting to Rs.1,392,693 relating to 03 Provincial Councils had neither been paid nor disclosed in the financial statements as payable.

- (c) A stock of 4.5 metric tons of urea fertilizer had been damaged while being transferred to the Kurunegala Stores and the damaged stock had not been brought to account.

### **1:2:3 Unreconciled Control Accounts**

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The following observations are made.

- (a) According to the records of the Marketing Division for the year under review, the overall sales amounted to 166,399 metric tons valued at Rs.1,070,330,373 whereas according to the financial statements that amounted to 165,867 metric tons valued at Rs.1,066,854,564. Thus a difference of 532 metric tons valued at Rs.3,475,809 was observed.
- (b) Seventeen instances of non-reconciliation valued at Rs.2,431,777 were observed between the balances of the Debtors Ledger and the confirmations of balances.

### **1:2:4 Accounts Receivable and Payable**

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The following observations are made.

- (a) Even though advances valued at Rs.235,574 had been granted in 19 instances prior to the year 2008 those advances had not been settled even by 31 August 2011.
- (b) Action had not been taken for the recovery a sum of Rs.23,706,125 due from 23 debtors existing from the years prior to 1994.
- (c) The loans recoverable from employees who had vacated, suspended from service and interdicted included in the employees loans amounted to Rs.3,546,999.
- (d) A debit balance of Rs.4,882,055 existed from the year 2009/2010 in the Income Tax Payable Account and action had not been taken to settle the balance.

**1:2:5 Lack of Evidence for Audit**

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 The evidence indicated against the following items of account were not made available to audit.

| Item of Account<br>----- | Value<br>----- | Evidence not made available<br>-----                         |
|--------------------------|----------------|--|
|                          | Rs.            |  |
| (a) Lands                | 90,000,000     | Title Deeds or such other documents in support of ownership. |
| (b) Debtors              | 55,500,568     | Confirmation of Balances                                     |

**1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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 The following non-compliances were observed.

| Reference to Laws, Rules, Regulations and Management Decisions<br>-----    | Non-compliance<br>-----   |
|--|---|
| (a) Inland Revenue Act, No. 10 of 2006                                     | The income tax payable from the year of assessment 2004/2005 to the year of assessment 2009/2010 amounted to Rs.54,622,270 and the income tax paid by 31 March 2011 amounted to Rs.31,446,295. Even though the further tax payable amounted to Rs.23,175,975, a sum of Rs.10,664,726 only had been shown in the financial statements as the income tax payable for the year under review. |
| (b) Establishments Code  |   |
| I. Chapter VIII Section 4.1  | Even though Staff Officers are not entitled to overtime, a sum of Rs.76,989 had been paid in the year under review as overtime to Staff Officers.   |
| II. Section 10.1of Chapter VIII and the Public Administration Circular No. | (i) A sum of Rs.667,846 had been paid during the year under review for working on more than 01 day on weekends and public   |

7/97 of 03 February 1997.

holidays without authority.

- (ii) Even though 1/20 allowance should be paid on the basis of the basic salary, the allowance paid had been computed on the salary comprising the basic salary, cost of living allowance and the special allowance.

(c) Government Financial Regulations

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- (i) Financial Regulations 104(3) and (4) and 1642

The Preliminary Reports and the Final Reports on 03 accidents to the motor vehicles of the Company had not been furnished. Even though accidents to motor vehicles should be reported to the nearest Police Station, 02 instances of failure to do so were observed at a test check.

- (ii) Financial Regulation 371 (2)(a)

Even though the ad hoc sub-impressts issued in one instance should not exceed Rs.20,000, advances exceeding such limit amounting to Rs.891,100 had been granted in 16 instances.

- (iii) Financial Regulation 387

Even though overdrafts cannot be obtained on Government Bank Accounts, a sum of Rs.478,088 had been paid as interest during the year under review on overdrafts obtained contrary to such stipulation. The overdraft balance of the Bank Current Account as at 31 March 2011 amounted to Rs.77,233.

(d) Public Enterprises Circular No. PED/12 of 02 June 2003.

- (ii) Section 8.3.3 and Management Services Circular No. 42

A sum of Rs.7,250,187 had been paid as the incentive allowance in the year under review without being based on the attendance and performance.

- (i) Section 9.3.1

Ten recruitments had been made in the year under review extraneous to the Scheme of Recruitment.

- (e) Department of Public Finance Circular No. PF/PE/9 dated 27 June 2000 and the Department of National Budget Circular No. BD/PE/3/2000 dated 02 May 2000. Even though the approval of the relevant Minister and the Minister of Finance should be obtained before investing the money of the Government Companies in fixed deposits, a sum of Rs.436,672,462 had been invested in fixed deposits in State Banks without obtaining such approval.
- (f) National Fertilizer Secretariat Circular No. 4/5/1 dated 30 October 2009. Even though subsidised fertilizer can not be sold on credit basis, fertilizer valued at Rs.9,276,223 had been sold on credit.

## 2. Financial and Operating Review

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### 2:1 Financial Review

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#### 2:1:1 Financial Results

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According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax net profile of Rs.326,513,860 as compared with the corresponding pre-tax net profit of Rs.935,118,273 for the preceding year, thus indicating a deterioration of Rs.608,604,413 in the financial result. The financial results for the year under review and the preceding year under different stages are given in the following table.

|                          | <u>For the year ended 31 March</u> |               |
|--------------------------|------------------------------------|---------------|
|                          | 2011                               | 2010          |
|                          | -----                              | -----         |
|                          | Rs.                                | Rs.           |
| (a) Gross Profit         | 533,220,673                        | 1,285,538,043 |
| (b) Pre tax Net Profit   | 326,513,860                        | 935,118,273   |
| (c) Net Profit after Tax | 210,630,411                        | 651,559,658   |

**2:2 Operating Review**  
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**2:2:1 Deficiencies in Contract Administration relating to Transport of Fertilizer**  
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The following observations are made.

- (a) Instances of the award of transport work to 12 institutions rejected by the Procurement Committee for the failure to satisfy the required terms were revealed at a test check.
- (b) Fifty eight institutions which had not submitted bids for the year 2010 had been included in a waiting list prepared.
- (c) Instances of transport work awarded before entering into agreements were observed. A test check revealed instances of attempts made for the irregular sale of fertilizer to other parties during such transport.
- (d) Suppliers awarded contracts should furnish between Rs.200,000 and Rs.400,000 according to the respective districts as performance bonds. Instances where such security had not been deposited were observed. Instead, agreements had been entered into with two institutions for the recovery of 10 per cent of the payments made to the service suppliers with a view to collecting the amount of security.

**2:2:2 Delayed Projects**  
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The following observations are made.

- (a) A sum of Rs.253,173 had been spent in the year 2007 for the construction of a store at Hambantota. Even though it was informed that the construction would be commenced in a different location instead of the land reserved, the work had not been done even up to 31 December 2011.
- (b) A sum of Rs.39,000 spent in the year under review on land clearing for the construction of a store at Polonnaruwa had been shown in the Work-in-progress Account. Nevertheless, the Company had failed to acquire that land even up to 31 December 2011.

### **2:2:3 Management Inefficiencies**

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The following observations are made.

- (a) Out of 65 debtors amounting to Rs.36,062,867 older than 07 years, legal action had been taken only in respect of 09 debtors amounting to Rs.7,197,644.
- (b) An examination of 04 debtors against whom legal action had been taken revealed the course of action was not at a satisfactory level. Details appear below.
  - (i) Even though it was informed that the sum of Rs.300,000 due from a Multipurpose Co-operative Society had been recovered and the case finalized a further sum of Rs.96,126 remained recoverable.
  - (ii) Even though the sum recoverable from a debtor amounted to Rs.2,672,073, a case had been filed for the recovery of a sum of Rs.2,550,906 only.
  - (iii) The file on the recovery of Rs.287,160 from a debtor had been closed as the documents called by the Department of Attorney General had not been furnished.
  - (iv) No action whatsoever had been taken since 10 April 2008 in connection with a sum of Rs.254,800 recoverable from a debtor.
- (c) Goods Received Notes had not been issued for the stocks of fertilizer supplied to an Agrarian Services Centre in 63 instances during the period from 04 December 2010 to 26 January 2011. A letter dated 25 March 2011 only had been issued as the acknowledgement.
- (d) A stock of 491.07 metric tons of fertilizer had been distributed in excess of the quantity of fertilizer approved by the National Fertilizer Secretariat for issue to the Agrarian Services Centres for distribution during the Yala Season 2010.
- (e) Even though the issue of 1,689.10 metric tons of urea fertilizer had been approved for the Dehiattakandiya Agrarian Services Centre for the Maha Season 2010/2011 a stock of 12 metric tons of urea fertilizer in excess of the approved quantity had been issued.

- (f) Two Agrarian Services Centres had been issued with 7.7 metric tons of fertilizer in excess of the approved quantity in the year under review.
- (g) The Colombo Commercial Fertilizer had supplied 204.20 metric tons of fertilizer for the Yala Season 2010 without proper approval to several Agrarian Services Centres in the Nuwara Eliya District to which fertilizer is distributed by the Lanka Fertilizer Company.

#### **2:2:4 Transactions of Contentious Nature**

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The Government had made available a sum of Rs.9,935,765 in the year under review under the fertilizer subsidy for the payment of Turnover Tax on 155,733 metric tons subsidized fertilizer. Out of that, a sum of Rs.8,535,379 had been paid to the Provincial Councils and the balance sum of Rs.1,400,386 had been retained by the Company as income.

#### **2:2:5 Uneconomic Transactions**

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The Treasury had made available a sum of Rs.513,093,837 as subsidy on 06 July 2010 for the settlement of a loan relating to a stock of fertilizer imported. That loan had been settled on 08 July 201 and an additional sum of Rs.312,657 had to be paid as interest on the delay of 02 days.

#### **2:2:6 Idle and Underutilised Assets**

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The following observations are made.

- (a) Even though a motor vehicle of the Company remained underutilized since July 2010, action in terms of paragraph 6 of the Public Finance Circular No. 438 of 13 November 2009 had not been taken either to repair and use or for sale of the motor vehicle.
- (b) A stock of 626.096 metric tons valued of Rs.16,863,254 of very slow moving fertilizer had been in the stores as at the date of stock verification on 13 February 2011.



**2:2:7 Identified Losses**  
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One employee had been paid the gratuity twice at the rate of Rs.33,286 in the years 2001 and 2010.

**2:2:8 Motor Vehicles Utilization**  
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Four motor vehicles of the Ministry of Agriculture had been given to the Fertilizer Company over a period exceeding 10 years. Those motor vehicles had not been formally transferred and as such action had not been taken to recognize those as assets of the Company.

**2:2:9 Corporate Plan and Action Plan**  
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The Corporate Plan for the years 2006-2011 prepared in the year 2006 had not been updated in term of the Public Enterprises Circular No. PED/12 of 02 June 2003. There were large differences between the Corporate Plan and the Action Plan prepared annually.

**2:2:10 Appointment and Functioning of Audit and Management Committees**  
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The Audit and Management Committees had not held meetings in the year under review in terms of the Public Finance Circular No.PF/PE07 of 15 March 2007 and Treasury Circular No.I/A/I/2000/1 of 12 July 2000.

**2:2:11 Budgetary Control**  
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Significant variances were observed between the budgeted and the actual amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.

**3. Systems and Controls**  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

- (a) Recovery of Debts
- (b) Grant and Settlement of Advances
- (c) Payment of Sundry Allowances
- (d) Motor Vehicles Control
- (e) Distribution and Transport of Fertilizer