

## **Colombo Commercial Fertilizer Co. Ltd. - 2011/2012**

### **1. Financial Statements**

#### **1.1 Disclaimer Opinion**

Because of the significance of the matters described in paragraph 1.2.5 (a) of this report I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **1.2 Comments on Financial Statements**

##### **1.2.1 Accounting Policies**

According to the bad debts policy of the Company, a provision of 2.5 percent should be made for loans for more than 5 years. Nevertheless, a sufficient provision for bad debts on debtors for more than 5 years, representing 63.7 per cent of the total debtor balance of Rs.36,428,942 had not been made.

##### **1.2.2 Accounting Deficiencies**

The matters observed are as follows.

- (a) As the closing stock had been valued at a rate of exchange different from the rate prevailed at the date of import of stock, the value of stock had been over stated by Rs.10,173,988.
- (b) While rectifying the overstatement of subsidy by Rs.517,005,334 on the closing stock, it had been credited to the exchange loss account instead of being credited to the fertilizer subsidy account, and as such the relevant accounts had been under stated by that amount.
- (c) Instead of imported value of fertilizer in the fertilizer import account in settling imports bills during the year under review, the value at the date of settling the import bills had been stated and as such the exchange loss incurred on change of exchange rate, amounting to Rs.154,840,852 had not been disclosed in the financial statements.

- (d) A stock of fertilizer valued at Rs.7,269,820 obtained in the year 2007 from a private firm on credit basis, had been shown in the financial statements as purchased made in the year under review.
- (e) A sum of Rs.1,237,639 had been reimbursed from the Treasury in excess of the interest and fines charged by the bank on long term loans for the period from May 2011 to February 2012 and this amount had been shown as an income in the financial statements of the year under review.

### **1.2.3 Unexplained differences**

Twenty eight instances of disagreement between the debtors ledger balances and the confirmations were observed. The debtors had informed that according to their books there were nil balances relating to the debtor balances of Rs.14,611,538 in 23 instances of them, and as such it could not satisfy the correctness of these balances in audit.

### **1.2.4. Accounts receivable and Payable**

Matters observed are as follows.

- (a) The outstanding debtor balances of 150 debtors as at 31 March 2011 amounted to Rs.45,877,587 and action had not been taken to recover or to write off the balance of Rs.23,803,076 included therein brought forward prior to 1994.
- (b) Even though a sum of Rs.12,625,866 was due from 74 debtors remained for over 07 years and arisen after re-commencement of the fertilizer company in the year 1997, legal action had been taken to recover only a sum of Rs.5.833,063 due from 6 debtors.
- (c) The loan balance recoverable from employees who had vacated their services, suspended their services and had been interdicted more than 18 years ago, amounted to Rs.3,546,999.

**1.2.5 Lack of evidence for audit**

Evidence stated against the following items was not made available for audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Stock of Fertilizer	3,282,865,947	Physical stock verification reports
(b) Lands	90,000,000	Deeds or other documents to establish the legal ownership of the land

**1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions**

Non compliances observed in audit are given below.

Reference to Laws, Rules etc.

Non-compliance

(a) Public Administration Circulars

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(i) Paragraph 9.3.1 of the Circular No. PED/12 dated 02 June 2003

Without having an approved scheme of recruitment, 15 had been recruited in the year under review.

(ii) Paragraph 1.5 of the Circular No. PED 12 of 02 June 2003 and Paragraph 8.3.5 of the Circular No. 58(2) dated 15 September 2011

- A monthly allowance of Rs.35,000 each had been paid to the Works Manager and the Transport Manager in respect of using private vehicles for official purposes who were not entitled for official vehicles.

- Transport facilities had been provided to 6 officers who were not entitled to provide transport facilities to travel from residence to

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office and vice versa. It was observed that those vehicles had been driven by those officers themselves.

- (iii) Paragraph 8.3.3 of the circular No. PED/12 of 02 June 2003 Without an approved scheme of incentives by the Treasury, a sum of Rs.8,178,899 had been paid as incentives in the year 2011/12.
- (b) 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 Although the approval of the Minister of Finance and the Minister in charge of the subject should be obtained before investing the money of the state companies in fixed deposits, a sum of Rs.464,694,252 had been invested in fixed deposits in a State Bank without obtaining such approval.
- (c) Circular No. 4/5/1 dated 30 October 2009 of the National Fertilizer Secretariat Although the subsidized fertilizer should not be sold on credit basis, coconut fertilizer valued at Rs.282,960 had been issued to an individual on credit basis on 24 November 2011.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the operation of the Company for the year under review had resulted in a pre-tax net profit of Rs.264,859,852 as compared with the pre-tax net profit of Rs.326,513,860 for the preceding year thus observed a decrease in the financial results by Rs.61,654,008.

Decrease in sales and other income by 13 percent had been the main reason for the decrease of financial results.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

Matters observed are given below.

- (a) The company had maintained 16 regional stores out of which written agreements had not been entered with 11 owners of those stores in respect of occupation of those stores.
- (b) Even though an insurance premium of Rs.1,302,266 had been paid for the year 2011/2012 for the insurance of stores, insurance indemnity of Rs.455,621 in respect of stock losses incurred during the year under review could not be recovered, as the damages caused to the stores had not been repaired pointed out by the Insurance Company.
- (c) Due to understatement of income for the year 2009/10, the additional income tax payable had been Rs.262,257,930. Action had not been taken to pay this money to the Department of Inland Revenue in updating the new income tax assessment.
- (d) it was observed that 4 vehicles belonging to the Ministry of Agriculture had been given to the Fertilizer Company since more than 10 years and those vehicles had not been properly transferred to the company and as such action had not been taken to identify these assets as the Company`s assets.

#### **3.2 Operating Inefficiencies**

There was no proper system of import of subsidized fertilizer and maintenance of stock records. As fertilizer was imported without being determined the minimum stock level, maximum stock level and re-order level, based on fertilizer requirement of each season excess stock of fertilizer was available in main stores of the Company at the end of each season. For instance, the stock available at the end of each season in the main fertilizer stores in the year 2010 and 2011 observed as 37%, 78% and 46% approximately of Urea, M.O.P, and T.S.P. respectively from the next season`s requirement.

### **3.3 Idle and Underutilized Assets**

Three fertilizer mixtures valued at Rs.3,750,000 with a capacity of mixing and manufacturing 480 Metric Tons per day had been installed in the stores complex but those three had not been utilized after the year 2008.

### **3.4 Resources of the Company given to other Government Institutions**

Contrary to the Paragraph 8.3.9 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 3 employees recruited to the staff of the Company had been employed to the staff of the line Ministry and salaries and wages amounting to Rs.757,862 had been paid to them during the year under review.

## **4. Accountability and Good Governance**

### **4.1 Presentation of Financial Statements**

According to the paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be presented to audit within 60 days after the closure of the year of accounts, the financial statements for the year 2011/2012 had been presented to audit after a delay of 5 months and 20 days on 21 November 2012.

## **5. Systems and Controls**

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

- (a) Control and Distribution of Fertilizer Stock
- (b) Vehicles Administration
- (c) Recovery of Outstanding Debtors Balances
- (d) Contract Administration

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