

Colombo Commercial Fertilizers Limited 2009/2010

1. Financial Statements

1.1 Opinion

In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Colombo Commercial Fertilizers Limited for the year ended 31 March 2010 presented for audit.

1.2 Comments on Financial Statements

1.2.1 Delay in the Presentation of Financial Statements

Even though the financial statements should be presented within 60 days after the closure of the financial year in terms of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements for the year under review had been presented to audit on 22 November 2010.

1.2.2 Sri Lanka Accounting Standards

The following observations are made.

- (a) The loss amounting to Rs.36,839 resulting from the disposal of office equipment valued at Rs.58,390 had not been adjusted in the Cash Flow Statement in terms of Sri Lanka Accounting Standard No. 09.

- (b) Even though the changes in current liabilities under Working Capital Changes in the Cash Flow Statement prepared in terms of Sri Lanka Accounting Standard 09 had been shown as Rs.17,465,554,543, the change in current liabilities amounted to Rs.9,118,328,203.

1.2.3 Accounting Policies

A provision for doubtful debts of 0.1 per cent had been made for all debtors balances remaining unsettled for over 01 year. Accordingly, the same percentage of provision for doubtful debts had been made for debtors amounting to Rs.36,368,221 remaining unsettled for over 05 years and debtors amounting to Rs.10,459,949 remaining unsettled between 01 to 05 years.

1.2.4 Accounting Deficiencies

The following observations are made.

- (a) Subsidies valued at Rs.749,308,371 receivable in respect of fertilizer imported in the accounting year 2008/2009 had been written off to the profit in the year under review without a proper authority. Nevertheless, out of the above value, a sum of Rs.595,000,000 had been reimbursed to the Company during the accounting year 2009/2010.

- (b) (i) Even though Turnover Tax relating to the Western Provincial Council on the value of sales amounted to Rs.3,993,409 it had been brought to account as Rs. 4,154,587 thus resulting in an overstatement of Rs.161,178.

- (ii) Provision for Turnover Tax amounting to Rs.1,262,902 payable to 03 Provincial Councils had not been made in the accounts .

1.2.5 Unsettled Balances

The following observations are made.

- (a) Action had not been taken to settle advances totaling Rs.235,574 relating to the period from the year 2001 to the year 2008.
- (b) There were unidentified credit balances totaling Rs.1,844,095 relating to two Bank accounts of the Fertilizer Company. Even though, these credit balances relating to the years 2007, 2008 and 2009 included a sum of Rs.1,305,060 received for fertilizer, action had not been taken to identify and settle them.

1.2.6 Unexplained Differences

The following observations are made.

- (a) The balances of 04 debtors according to the Debtors Ledger amounted to Rs.1,131,995 where as according to the confirmation of balances that amounted to Rs.310,799. Thus a difference of Rs.821,196 was observed.
- (b) Sales relating to the accounting period under review according to the Stock Reconciliation and according to the Sales Account stood at 140,897.018 metric tons and 142,728.155 metric tons respectively .Thus a difference of 1,831.137 metric tons was observed.

1.2.7 Accounts Receivable and Payable

The following observations are made.

- (a) The value of Unrecovered loan balances relating to 67 debtors that remained for over 05 years amounted to Rs.36,368,221.
- (b) Unsettled balances of prepayments existing for over 04 years amounted to Rs.179,446.

1.2.8 Lack of Evidence for Audit

The following items in the accounts could not be satisfactorily vouched in audit due to unavailability of evidence indicated against each item.

Item of Account -----	Value -----	Evidence not made available -----
	Rs.	
(a) Lands	90,000,000	Title Deeds or other documents in support of ownership.
(b) Debtors (Over 05 years)	35,235,955	Confirmation of Balances

1.2.9 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions -----	Particulars -----
(a) Public Enterprises Reform Act, No. 29 of 1996	According to the Act, the post of Competent Authority is effective for a period of 06 months and the validity period had expired on 11 May 1997. Accordingly, it was observed that there is no proper authority for the post of Competent Authority of the Company.

(b) Government Financial
Regulations

- (i) Financial Regulation 113 Treasury approval had not been obtained in 2007 to write off loan balances aggregating Rs.60,585,398 relating to 72 debtors which could not be recovered for over 13 years.
- (ii) Financial Regulation 135 Delegation of Authority and assignment of duties for the posts in the Company had not been properly done.
- (iii) Financial Regulation 387 The Company had obtained Bank overdraft facilities and a sum of Rs.8,833,269 had been paid as interest thereon.

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

- (i) Section 7.4.2 Even though a Senior Management Committee should be established for taking and implementing administrative, establishment and operating decisions, such Committee had not been established.
- (ii) Section 8.3.3 Even though approval of the Treasury should be obtained and financial statements of the Company for the preceding year should have been presented to the Auditor General and tabled in the Parliament for the payment of annual bonuses and incentives. Nevertheless, the Company had paid a sum of Rs.7,621,242 as allowances during the year under review without taking action accordingly.

- (iii) Section 8.7 PAYE Tax amounting to Rs. 262,116 had been paid in the year under review on behalf of the employees contrary to the instruction of the Section referred to.
- (iv) Section 9.2
(a) , (b), (c) and (d) Even though there should be a Cadre Requirement Plan, an Organization Chart and an approved cadre for the Company and the Organization Chart and the approved cadre should be registered in the Department of Public Enterprises of the General Treasury, action had not been taken according to such stipulations.
- (v) Section 9.11 Immediately after the implementation of an employees retrenchment programme of an institution, a revised cadre should be prepared and presented for registration with the Department of Public Enterprises of the General Treasury and that new recruitments should not be made in the succeeding two years. However, 73 new recruitments had been made from the year 2005 up to date.
- (vi) Section 9.12 A welfare programme had been implemented without obtaining an approval of the Department of Public Enterprises and a sum of Rs. 219,461 had been spent thereon during the year under review.
- (d) Public Finance Circular No.PF/PE/3 of 19 November 1999 Audit and Management Committees had not been established in the Company.

- (e) Section 9.3.1(b) of the Government Procurements Guidelines No.NPA/08 dated 25 January 2006
- A sum of Rs.449,652 had been spent in the year under review for carrying out repairs over Rs.100,000 to motor vehicles and equipment without obtaining the approval of the Secretary to the Line Ministry.
- (f) Public Administration Circular No.14/2008 of 26 June 2008
- (i) Even though the Competent Authority can use his private vehicle for official purposes, the maximum amount can be paid by the Company for that purpose is Rs.360,000 per annum at Rs.30,000 per mensem. Contrary to that, a sum of Rs.720,000, at Rs.60,000 per mensem had been paid in the year under review. Accordingly a sum of Rs.360,000 had been overpaid in the year under review.
- (ii) Even though the Competent Authority cannot engage a driver for his official motor vehicle or utilize any other motor vehicle ,he had utilize another motor vehicle from time to time and engaged several drivers for that purpose.
- (g) Circular No.4/5/1 of National Fertilizer Secretariat dated 30 October 2009.
- Even though fertilizer could not be sold on credit basis, credit sales amounting to Rs.11,590,293 had been made contrary to that Stipulations.

2. Financial and Operating Review.

2.1 Financial review

2.1.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a net profit of Rs.185,780,364 as against the net loss of Rs.42,227,190 for the preceding year, thus indicating an increase of Rs. 228,007,554 in the financial results. The following table gives the financial result at various stages for the year under review and the preceding year.

	Year ended 31 March	
	2010	2009
	Rs.	Rs.
(a) Gross Profit	536,229,672	151,074,011
(b) Net profit/(loss) before tax	185,809,902	(40,197,190)
(c) Net profit/loss after tax	185,780,364	(42,227,190)

2.2 Operating Review

2.2.1 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to institute legal action against debtors valued at Rs.25,620,414 older than 5 years.
- (b) On the recovery of loans from 18 debtors only the sales value of the year under review had been recovered by cheque leaving the opening balance static.

- (c) A cheque bearing No.914133 dated 23 March 2010 valued at Rs.228,085 had been dishonored as the Company had failed to bank the cheque on the due date.
- (d) Even after it had been established that the Bank account did not have adequate money to cover two cheques bearing No.445179 for Rs.502,400 and No.445180 for Rs.29,450 issued by the Namaltalawa Agrarian Service Centre, the company had issued fertilizer for those cheques. Subsequently the Bank had dishonored those cheques.

2.2.2 Transactions of Contentious Nature

The following observations are made.

- (a) Even though a sum of Rs. 253,173 had been spent in the year 2007 on the preparation of plans for the construction of a store in Hambantota, the construction work had not been commenced so far and the expenses had been included in the Work-in-progress Account. The Competent Authority had informed that the construction works would be commenced in the ensuing year as a land had been received for the construction.
- (b) i. Even though the State Fertilizers Companies should supply fertilizer only to the Agrarian Services Centers in the Zones in each district attached to each Company in terms of paragraph 4.1 of the Circular No. 4/5/1 dated 01 September 2008 issued by the Fertilizer Secretariat Office, the Colombo Commercial Fertilizers Company had supplied 41,571.45 metric tons of fertilizer from the Maha season of 2007/2008 to 08 February 2010 to a regional distributor of stocks.

- ii. According to the instruction of the letter No.4/5/1 dated 30 October 2009 of the Director of the National Fertilizer Secretariat the price per 50 kilogram bag of fertilizer issued from the Main Stores at Hunupitiya should not be less than Rs.300. Nevertheless the price charged per such bag of Fertilizer issued to the above distributor had been less than Rs.300.
 - iii. The Fertilizer Company had sold to the said distributor 1272.17 metric tons of fertilizer from the period of October 2009 to January 2010 in excess of the maximum limit of fertilizer specified for distribution to Agrarian Services Centers in the Distribution Plan issued by the Fertilizer Secretariat.
- (c) Lease Rentals for the Regional Store at Bataatha amounting to Rs. 255,000 had been paid from 29 October 2007 to 31 March 2009 to a person whose ownership could not be established. Lease rentals had not been paid after 31 March 2009 while provision for lease rentals had also not been made. Nevertheless it was observed that the store is being maintained at the same location.
- (d) Stock of fertilizer valued at Rs. 277,337,774 had been supplied to private institutions on credit during the year under review without entering into proper credit sale agreements.

2.2.3 Payments Contrary to Objectives

Aid and donations amounting to Rs. 2,721,123 had been paid to various institutions contrary to the objectives of the Company.

2.2.4 Idle Assets

Three Fertilizer Mixing Machines costing Rs. 3,750,000 with capacity for producing 480 metric tons of mixed fertilizer per day had been installed in the Stores Complex and those machines had been operated at a lower capacity level after the implementation of Fertilizer Subsidy Programme. These machines had not been used at all during the years 2008/2009 and 2009/2010.

2.2.5 Identified Losses

The following observations are made.

- (a) Even though the Letter No. 4/5/5/SF/2007/2008 dated 07 February 2008 of the Acting Director of the National Fertilizer Secretariat specified that sale of fertilizer to the Agrarian Services Centers should be made at Rs.330 per bag of Fertilizer, the Competent Authority of the Commercial Fertilizers Company had approved the transport of Fertilizer to Batticaloa Town at Rs. 314 per bag. Thus a loss of Rs. 3,027,594 had been incurred by the Company during the year under review.

- (b) The income lost by the company during the years 2006 to 2010 due to granting of a higher discount to a distributing agent, than that normally granted by the Colombo Commercial Fertilizers Company on the sale of Fertilizers amounted to Rs.31,443,782.

2.2.6 Corporate Plan and Action Plan

The Corporate Plan prepared in the year 2006 for the years 2006-2011 had not been revised annually according to the requirements of the Company and there were considerable differences between the Action Plan prepared annually and the Corporate plan.

2.2.7 Budgetary Control

Significant variances were observed between the budgeted and the actual income and expenditure during the year under review thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Competent Authority of the Company from time to time. Special attention is needed in respect of the following areas of control.

- (a) Motor Vehicles Control
- (b) Debtors Control
- (c) Fixed Assets Control
- (d) Stocks Control
- (e) Human Resources Management