

## **Colombo Commercial Fertilizer Company Ltd – 2015**

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The audit of financial statements of the Colombo Commercial Fertilizer Company Ltd for the year ended 31 March 2016 comprising statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity / and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My comments and observations which I consider should be published with the Annual Report of the Company appear in this report. A detailed report was furnished to the Chairman of the Company on 27 October 2016.

### **1.2 Establishment of the Company**

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The Colombo Commercial Fertilizer Company Ltd., was registered as a Company in the year 1872 and was controlled by the Great Britain for over a century from the year 1872 to 1976. The Company was acquired by the Government in year 1976 under the Business Undertakings (Acquisition) Act, No. 35 of 1971 and the business activities had been run under the name of the Colombo Commercial Fertilizer Company under a Competent Authority.

The Company was registered as a State Company in accordance with the conversion of Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987 and was privatized in the year 1994 according to the policy of the Government. It was vested again in the year 1997 under the Government Owned Business Undertakings (Rehabilitation) Act, No. 29 of 1996 and is under the Control of the Line Ministry. The Company has been registered at present as a company under the Companies Act, No. 07 of 2007.

### **1.3 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.4 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **1.5 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of matters described in paragraph 2.2. of this report the financial statements give a true and fair view of the financial position of Colombo Commercial Fertilizer Company Ltd. as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

- (a) Even though any actuarial profits or losses should be included in the Comprehensive Income Statement in terms of Sri Lanka Accounting Standard 1 , the Company had not shown the actuarial profits or losses amounting to Rs.108,697,211 in the Comprehensive Income Statement.
- (b) In view of the failure to revise the effective life of the non-current assets annually in terms of the Sri Lanka Accounting Standard 16, assets costing Rs.38,318,368 had been in further use, though fully depreciated. Action in terms of the Sri Lanka Accounting Standard 8 had not been for the revision of the estimated error.

## **2.2.2 Accounting Deficiencies**

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Advances of Rs.200,000 granted for providing transport for fertilizer had been shown as advances despite obtaining the services whilst the accrued transport expenses relating to the year under review amounting to Rs.273,473 had not been brought to account. As such the transport expenditure had been understated by a sum of Rs.473,473.

## **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) A difference of Rs.1,478,241 was observed in the comparison of the debtors balance according to the financial statements for the year under review with schedule presented for audit.
- (b) The accuracy of the book balance of the stock as at 31 December of the year under review amounting to Rs.557,757,172 due to the failure to make adjustments for the damage and losses of fertilizer in the preceding years and the failure to carry out a physical stock verification for the year under review.

## **2.2.4 Accounts Receivable and Payable**

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The following observations are made.

- (a) A sum of Rs.286,620 only had been recovered during the year under review from the trade debtors balance amounting to Rs.47,254,730 that existed prior to the year 2010. Accordingly, the recovery of debtor balances older than 05 years had been at a very weak level.
- (b) Even though transactions with 46 Agrarian Service Centres had been executed during the year under review, action had not been taken for the settlement of the deposits of the customers for the purchase of fertilizer as at 31 March 2015 and the overpayments made amounting to Rs.13,360,483.
- (c) The debtors balances of 06 Agrarian Services Centres amounting to Rs.1,738,244 that existed as at 31 March 2015 had not been recovered even by 31 August 2016.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Company for the year under review amounted to a surplus of Rs.180,971,671 as compared with the

corresponding surplus of Rs.281,645,038 for the preceding year, thus indicating a deterioration of Rs.100,673,367 in the year under review as compared with the preceding year. The increase of the overhead costs of the fertilizer subsidy by a sum of Rs.71,168,475 and the decrease of the other income by a sum of Rs.21,723,061 had been the main reason for the above deterioration.

An analysis of the financial results of the year under review and the 4 preceding years indicated that despite the decrease of the financial surplus of the year 2011/2012 amounting to Rs.167,128,785 that had indicated decreases in the years 2012/2013 and 2013/2014, and an improvement was shown in the year 2014/2015. But that had decreased again to Rs.180,971,671 in the year 2015/2016. The Value addition of Rs.322,750,857 after the adjustment of the employees remuneration, the Government Taxes and the depreciation on non-current assets in the year 2011/2012 , had indicated decreases in the years 2012/2013 and 2013/2014 , that had increased in the year 2014/2015 and decreased again to Rs.350,816,416 in the year 2015/2016.

#### **4. Operating Review**

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##### **4.1 Performance**

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According to the Memorandum of Association of the Company the primary objects of the Company are to carry on the business of agents, importers, manufacturers, distributors of and dealers in fertilizers, chemicals, minerals and other natural and synthetic substances whether in finished or unfinished form, re-export them in any form and act as agents and import export packers.

The following matters were observed in the audit examination of the achievement of the above objectives.

The Treasury grants received by the Company under the Subsidy Scheme had been removed with effect from 29 February 2016, the Company should have prepared the advance plans to face the future business risks. But that had not been done. The strengths and weaknesses in the organisations and the external threats and opportunities analysis and the planning for promotion of sales through prioritized categories of fertilizer and action had not been taken for the promotion of sales through inducing the use of carbonic fertilizer instead of the chemical fertilizer had not been done while the advance business plan for the sales promotion had not been prepared.

##### **4.2 Operating Activities**

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Even though the Company gives the samples of fertilizer imported to the National Fertilizer Secretariat after the imported fertilizer reaches this country is transported by the transport companies / agents to the stores at Hunupitiya and the other Stores and fertilizer cannot be sold until the receipt of the Marketing Letter on the samples. According to a sample checked, there had been delays ranging from 01 month to 07 months in the receipt of the Marketing

Letter relating to fertilizer categories such as the UREA, MOP and TSP. As such the additional cost has to be incurred for the maintenance of stocks.

### **4.3 Management Activities**

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The following observations are made.

- (a) Four quotations had been received in connection with the disposal of a Mitsubishi Pajero Jeep and the maximum and the second quotations had been Rs.1,635,950 and Rs.1,430,000 respectively. The person who offered the highest quotation had informed by letter dated 07 May 2015 that the purchase will be made at that price only if the original registration of the vehicle is received and if a duplicate is given he will not purchase the vehicle. As action had not been taken to obtain an original of the Certificate of Registration from the Department of Motor Traffic, it had to be sold at the next price of Rs.1,430,000. As such the company had been deprived of a sum of Rs.205,950 from the sale of the motor vehicle.
- (b) Even though decision had been taken under item 421 of the Minutes of the meeting of the Board of Directors No. 49 held on 19 June 2015 to handover the recovery of the irrecoverable debts amounting to Rs.16,177,108 out of the debtors balances of the year 1994, to a Finance Company, steps had not been taken in that connection up to date.
- (c) The land at Hunupitiya on which the Head Office and the stores complex are situated is a State land comprising two sections of 4.832 hectares and 1.176 hectares. Action had not been taken up to date to get the ownership of the lands vested in the company.

### **4.4 Procurement and Contract Process**

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The following observations are made.

- (a) An estimate of Rs.3,704,000 had been prepared for the repairs of the Neboda Fertilizer Store and a sum of Rs.3,551,207 had been spent thereon. The following observations are made in this connection.
  - (i) Deviating from the Procurement Process, repair work had been awarded to the Department of Buildings.
  - (ii) Even though the contract agreement did not contain provision for sub-contracting, the Department of Buildings had awarded the repair work to a private Company without the approval of the employer.
  - (iii) According to the bill of quantities of the estimate, payments exceeding the estimated amounts had been made for 09 items and the activities of 10 items had not been executed. As such, it was not possible to be satisfied in regard to the accuracy of the preparation of estimates.

- (b) A sum of Rs.10,384,040 had been paid in the year under review to a private institution for the security services of the year under review. The procurement had been awarded again with effect from 15 August 2015 to the same company supplying security service. The following observations are made in this connection.
- (i) The Assistant Administration Manager had reported on several occasions in writing that the services of the security service provider are not satisfactory. According to the decision of the Board of Directors made at the meeting held on 10 November 2015, the institution was informed by letter dated 01 December 2015 that their services will be suspended. Nevertheless, the services of that institution had been obtained by extending the period in 04 occasions deviating from the Procurement Process.
- (ii) Even though all work had been organized to obtain Security Officers from the Department of Civil Security in accordance with the letter No. CSD/1/12/6(298) of 18 July 2015 on “the deployment of the members of the Department of Civil Security of the Director General of Civil Security on Security and Project Duties in accordance with the Cabinet Memorandum”, the security officers of the above institution had been deployed throughout by suspending the recruitment of Security Officers from that Department due to the failure of the Department to produce a performance Bond for 10 per cent of the contract value.

#### **4.5 Identified Losses**

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The following observations are made.

- (a) The preliminary inquiry on the financial fraud of Rs.105,000 of the Neboda Fertilizer Store committed in February 2008 had not been held, whilst the preliminary inquiry on the stock shortage of Rs.1,688,000 of the Regional Store Badulla that had occurred in February 2006 had also not been held. As such action had not been taken even by 30 June 2016 to identify the parties responsible and recover the losses.
- (b) Legal action was being taken for the recovery of the loss caused to the Company due to the misappropriation of Rs.1,903,555 by the Storekeeper of the Regional Store, Dehiattakandiya in the year 2012. As action on the loss and damage had not been taken, it was observed in audit that the possibility of recovery may be deprived of due to the intervention of time-bar.

#### **4.6 Staff Administration**

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According to the Scheme of Recruitment, the promotion of officers in the Staff Grades should be made with the approval of the appointing authority, that is, the Board of Directors. Contrary to that, a Management Assistant Officer had been promoted on the approval of the Chairman.

## 5. Accountability and Good Governance

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### 5.1 Presentation of Financial Statements

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Even though the financial statements should be presented for audit within 60 days after the close of the year of accounts in terms of the Public Finance Circular No. PF/PE/21 of 24 May 2002, the financial statement of the Company had been presented after a delay of 58 days. Since the issue of the draft Audit Report, the amended financial statements had been presented after a delay of 36 days.

### 5.2 Corporate Plan

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Even though paragraph 05 of the Public Finance Circular No. 01/2014 of 17 February 2014, required that in view of the need for the management of the business affairs with a short term and long term view a Corporate Plan at least for a period of three years should be prepared and forwarded with the approval of the Board of Directors for the approval of the relevant Secretary, the Company had not prepared such Corporate Plan.

## 6. 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.

### Areas of Systems and Controls

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### Observations

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(a) Financial Control	- A formal cash book had not been maintained for all receipts and payments.  - A formal methodology for the storage and sale of fertilizer at the Regional Stores had not been formulated and a methodology had not been followed for the recovery of recoverable debtors balances.
(b) Stores Control	Receipt and issue of goods had not been done in the updated manner and properly.
(c) Motor Vehicles Control	Log Books containing all basic information of each motor vehicle had not been maintained.
(d) Contract Administration	The provisions in the Procurement Guidelines and Circulars had not been complied with.