

## **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 2015 comprising the statement of financial position as at 31 March 2015 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.

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

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The 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.

### **1.3 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 the 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 the 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.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Colombo Commercial Fertilizer Company Ltd as at 31 March 2015 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.

### 2.2.1 Sri Lanka Accounting Standards

In accordance with Sri Lanka Accounting Standard 19, retirement benefits for the year under review had not been accounted by computing as per the projected unit credit method after identifying present day service costs, interest costs and actuarial profits and losses.

### 2.2.2 Non-reconciliations

According to the stock books of the main stores at Hunupitiya, the stock of fertilizer was 23,911.22 Metric Tons as at 31 March 2015. However, a difference of 388.27 Metric Tons were observed as it was 23,522.95 Metric Tons according to the financial statements.

## 2.3 Accounts receivable

The following observations are made.

- (a) The trade debtors balance as at 31 March 2015 amounted to Rs. 56,957,862 including the loan balance of Rs. 11,791,091 receivable from 45 Agrarian Services Centers. Of that, a sum of Rs. 5,281,596 receivable from 24 Agrarian Services Centers was more than 05 years old, and action had not been taken adequately to recover those loan balances.
- (b) A sum aggregating to Rs. 8,042,989 remained recoverable from the Ceylon Fertilizer Company since 2007/2008 up to 2010/2011, had not been recovered even up to the end of the year under review.
- (c) Even though a sum of Rs. 25,761,062 had been provided for impairments of debtors, approval of the Board of Directors had not been obtained in that connection.
- (d) Action had not been taken to recover loan balances amounting to Rs. 36,171,884 due since the period prior to the commencement of the fertilizer subsidy scheme.

## 2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances with Laws, Rules, and Regulations were observed.

### Reference to Laws, Rules and Regulations

### Non-compliance

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| (a) Management Services Circular, No. 05/2014 of 21 November 2014, and Section 3.3 of Public Finance Circular, No. PF/PE/21 dated 24 May 2002. | Despite being stated that the annual Accounts should be presented to the Auditor General on time in order to pay the bonus, accounts for the year 2013/2014 had been presented on 04 August 2014 with a delay of 03 months. Nevertheless, a sum of Rs. 1,219,500 had been paid as bonus at Rs. 13,500 per employee. |
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(b) Government Procurement Guidelines

- (i) Paragraph 5.4.8 (a) The suppliers should provide a performance bond not less than 5 per cent of the estimated contract sum. However, 03 instances where performance securities had not been provided by transport contractors, were observed.
- (ii) Paragraph 5.4.8 (b) In spite of being stated that the securities provided by the contractors should be valid till 28 days beyond the intended date of completion of work, 14 instances, in which performance securities valid till 28 days after the completion of work had not been obtained, were observed.

**2.5 Transactions not Supported by Adequate Authority**  
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The following observations are made.

- (a) In spite of the recommendation made by the Board of Directors' meeting held on 22 December 2014 that approval of the Treasury should be obtained to make payments for the supply of transport facilities to a farmers' summit held in January 2015, a sum of Rs. 1,080,000 had been paid to the Board on 29 December 2014 without obtaining such an approval.
- (b) Without obtaining the approval of the National Fertilizer Secretariat, 4,771.04 Metric Tons of fertilizer used in paddy cultivation had been sold to be used for other cultivations in the year 2013/2014, whereas, 4771.04 Metric Tons of fertilizer imported in the year 2014/2015 to be used for other cultivations, had been transferred to fertilizer used in paddy cultivation.

**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 operations of the Company during the year under review had resulted in a pre-tax net profit of Rs.436,529,170 as compared with a pre-tax net profit of Rs.208,984,673 for the preceding year. Thus, an improvement of the financial result amounting to Rs. 227,544,497 was observed in comparing the profit of the year under review with that of the preceding year. This improvement had mainly been contributed by the increase in sales and subsidies by Rs. 162,951,183, and other income by Rs. 74,184,116.

### **3.2 Analytical Financial Review**

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The following variances were observed in comparing the financial results of the year under review with that of the preceding year.

- (a) Due to the increase in sales of fertilizer used in paddy cultivation by 8 per cent and other crops by 106 per cent in the year under review, the overall sales had increased by 50 per cent.
- (b) As the profit margin per Metric Ton of fertilizer used in paddy cultivation was Rs. 350 and Rs. 4,000 for other cultivations, sales of fertilizer used in other cultivations had increased by 116 per cent. Hence, the gross profit had increased by 374 per cent.
- (c) As the Treasury had not paid the fertilizer subsidy on time, the Company had obtained short term loans amounting to Rs. 6,715,562,085 for settling the exchange bills representing an increase of 156 per cent as compared with the preceding year.

## **4. Operating Review**

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### **4.1 Management Inefficiencies**

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Under the Issue order 56690, the fertilizer stores at Sapugaskanda had sent 17.5 Metric Tons of Urea to the stores in Akkarapattu on 03 December 2014. The Goods Receipt Note (GRN) bearing number 56521 had been issued to the effect that the stock of fertilizer had been handed over to the stores and accepted therein on 11 February 2015. The agreement number printed on the bags of fertilizer dispatched to the regional stores was 2014/CCF/UR/02, whereas the agreement number printed on the bags accepted by the stores was 2014/CCF/UR/07. The difference of the agreement numbers printed on bags of fertilizer had remained questionable in audit.

### **4.2 Operating Inefficiencies**

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The following observations are made.

- (a) A stock of fertilizer weighing 16.69 Metric Tons that had been received by the regional stores in Kantale on 05 August 2011 under the fertilizer subsidy scheme for other crops, had remained unsold even as at 05 January 2015.
- (b) It was observed that 7.8 Metric Tons of fertilizer for other crops received by the regional stores in Kandy on 27 January 2014, was slow-moving.
- (c) Ten instances were observed in audit where 05 contractors who accepted to provide transport for 10 districts in the year under review had continuously failed to provide Lorries adequately. However, action had not been taken to recover fines at Rs. 1,500 per day in accordance with Section 03 of the transport agreement.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) A sum of Rs. 575,000 had been given as grants to welfare organizations during the year under review contrary to objectives.
- (b) A sum of Rs. 11,008,504 had been paid to the staff of the Company as incentives during the year under review without approval of the Treasury, including a sum of Rs. 180,000 paid as an incentive to the Chairman who was not an employee of the Company.

#### **4.4 Identified Losses**

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The following observations are made.

- (a) Stocks losses valued at Rs. 11,450,095 had incurred in the year under review in transit and due to substandard packaging.
- (b) A stock shortage of 90.75 Metric Tons costing Rs. 5,019,471 had been reported at the physical stocks verification carried out at 2 regional stores during the year under review. Nevertheless, action had not been taken to recover them from the parties responsible.
- (c) As the selected transport contractors had not provided lorries adequately for transporting fertilizer in Anuradhapura and Hambanthota districts in the year under review, a sum of Rs. 2,725,513 had been paid as additional transport charges for transporting fertilizer using external lorries.

#### **4.5 Un-economic Transactions**

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The stocks at the fertilizer stores in Sapugaskanda which had been obtained on lease with effect from 12 May 2014, had exhausted since 03 December 2014. However, lease rent amounting to Rs. 1,774,271 had been paid for 2 months up to 11 February 2015 for the empty stores without taking steps to hand over the stores.

#### **4.6 Weaknesses in Contract Administration**

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The following observations are made.

- (a) A newspaper advertisement had been published in July 2013 at a cost of Rs. 23,184 calling for quotations in order to maintain the labour services of the Company from September 2013 to August 2014. Another advertisement had been published in the same newspaper on the following day incurring a sum of Rs. 10,080 in order to nullify the previously published advertisement without justification, and the labour contract had been awarded to a private contractor from 2012 up to the year under review continuously.

**(b) Procurement for the construction of a vehicle park at the Head Office**

- (i) Service of a qualified person had not been obtained for the preparation of detailed estimates, BOQ s and designs for the aforesaid construction.
- (ii) Only a period of 08 days had been allowed to present bids contrary to Paragraph 6.2.2 of the Government Procurement Guidelines. A sum of Rs. 669,773 had been paid sans a certification from an engineer / consultant on the completion of work in accordance with 8.12.2 of Procurement Guidelines.
- (iii) Furthermore, the officer who prepared the estimates and designs, had also participated as a member of the Technical Evaluation Committee.

**5. Accountability and Good Governance**  
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**5.1 Unresolved Audit Paragraphs**  
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The necessity for the preparation of an incentive scheme for the Company under the approval of the Treasury had been emphasized at the Committee of Public Enterprises meeting held on 05 July 2012. However, approval of the Treasury had not been obtained until 20 August 2015 for the scheme that had been prepared by 31 October 2014.

**6. Systems and Controls**  
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Deficiencies in the 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) Maintenance of Personal Files
- (b) Stores Control
- (c) Distribution Process
- (d) Control of Vehicles