

## **State Timber Corporation - 2021**

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### **I. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of financial statements of the State Timber Corporation for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for the Qualified Opinion**

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My opinion is qualified based on matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

#### 1.4 Audit Scope (Responsibility of Auditor regarding the Audit of Financial Statements)

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation ;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

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### 1.5.1 Non-Compliance with Sri Lanka Accounting Standards

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Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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(a) Although the Cash Flow Statement should be prepared as per Sri Lanka Accounting Standard No. 07, the Cash flow Statement had been prepared in contrary to the Standard disregarding the actual cash inflow and actual cash outflow of the year.		
I. The cash inflow of Rs.1,237,220 that received from selling property, plant and equipment had not been adjusted under investing activities.	The amount without tax from selling property, plant and equipment in the year under review had been stated as cash inflow under operating activities and cash outflow under investing activities. It was informed that this had been accounted correctly according to Paragraph 35 of Sri Lanka Accounting Standard No. 07.	Action should be taken to prepared accounts accurately in accordance with the Standard.
II. Although capital work in progress of Rs.5,561,222 had been capitalized for non-current assets during the year, though there was no any cash inflow or cash outflow from that, it had been stated as a cash inflow in the Cash Flow Statement.	The investing activities were not overstated as the balance of work in progress account in the year under review had been stated as a cash inflow under investing activities and as a cash outflow under investing activities as an acquisition of property, plant and equipment. Action will be taken to rectify this in future.	Do
III. The staff loans of Rs.136,086,521 had been given by the Corporation in the year under review and, the staff loans of	The staff loans given and recoveries in the year under review had been adjusted to the Cash Flow Statement under other debtors under operating activities. Action	Do

Rs.146,979,660 had been recovered. That cash inflow and cash outflow had not been adjusted to the Cash Flow Statement under investing activities. will be taken to adjust under investing activities in future.

- IV. Although the amounts of Rs.51,473,087 and Rs.257,248,540 respectively in respect of two fixed deposits had been cashed, that cash inflow had not been adjusted to the Cash Flow Statement. The net amount of two of investment in the fixed deposits in the year under review and encashment of fixed deposits during the year had been adjusted to the cash flow under investing activities. According to the Paragraph 22 of Sri Lanka Accounting Standard No. 07, it had been adjusted to the cash flow based on net amount. Do
- (b) Although it should be restated the opening balances of assets, liabilities and equity accounts in the previous year when rectifying the material errors in previous years as per Paragraph 42 (b) of Sri Lanka Accounting Standard No. 08, the net profit of the Corporation had been understated by Rs.182,376,560 in last 10 years as that error was not corrected properly by Corporation. It was kindly informed that the values of trade inventories in the Corporation as at 31 December 2021 had been stated in the financial statements in year 2021 as per Accounting Standard No. 02. Do

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| <p>(c) According to the Sri Lanka Accounting Standard 02, inventory should be valued for the lower of cost or net realizable value and when the net realizable value is lesser than cost of closing inventory, that difference should be written off from profit as an expense. In contrary to the Standard, for the trade inventory, a wrong accounting policy had been followed in past years as provisions of 15 per cent for depletion of inventories. Without following that wrong accounting policy in the year 2021, it had been disclosed in financial statements by Note No. 1.3.1.7 that a provision of Rs.244,674,913 had been made for the depletion of inventories.</p> | <p>Without provision of 15 per cent provision for the depletion of inventories in this year, the accumulated provision until now had been stated in the inventory account. It was informed that it was not re-established as it was acted considering this provision as an allowable expense when calculating tax in Inland Revenue Department.</p> | <p>Do</p>  |
| <p>(d) Action had not been taken to rectify an estimated error in assets of Rs.796,253,922 that were fully depreciated but in use due to non-review of useful life time of items of property, plant and equipment as per Paragraph 51 Of Sri Lanka Accounting Standard No. 16 and state the net value correctly in the financial statements as per Sri Lanka Accounting Standard No. 08.</p>   | <p>Comments were not stated.</p>  | <p>Do</p>  |
| <p>(e) Semi-finished inventory related to 5465 items valued at Rs.114,258,780 in Ampara furniture complex had been added to the closing inventory in the financial statements without physical verification.</p>   | <p>Comments were not stated.</p>  | <p>Action should be taken to include in the financial statements after physical verification of inventories.</p> |

### 1.5.2 Accounting Deficiencies

Following observations were made.

Audit observation -----	Management Comments -----	Recommendation -----
(a) Rs.14,700,000 had been stated in the accounts in year 2021 as rent income in relation to 05 years from 2017 to 2021, without having legal rent agreement with Department of Forest Conservation.	It was informed that though rent agreements had been prepared by the party of Corporation and presented to the Department of Forest Conservation, it was not been paying specified government assessed rent further without entering into agreement.	It should be obtained rentals or taken action legally by discussing with the Department.
(b) Although the interest income receivables from short term and long term investments was Rs.122,957,700, the interest income of the year under review had been accounted in excess by Rs.1,537,391 as it was stated as Rs.124,495,091.	The investment interest income receivables of Rs.1,537,391 had been over calculated by error of delay when calculating investment interest income. It was informed that this was rectified in year 2022.	Actions should be done to state the accurate interest income in the accounts.
(c) As debited of Rs.103,246,849 that settled from sales advances to sales control account, the sales income and sales advances had been overstated from that amount.	There were unsettled invoices for Rs.103,246,849 prevailed in cash sales control account and that amount had been balanced by settling from the balance of Rs.131,176,540 in cash sales advances account.	Action should be taken to prepare accounts correctly.

### 1.5.3 Documentary Evidences not made available for Audit

Audit Observation -----	Audit Evidences not Provided -----	Management Comment -----	Recommendation -----
The details on the ownership of the lands that situated buildings including Ampara regional office, furniture complex, sawmill, timber stores and hostels had not been presented to the	i. Land deeds ii. Letters, documents that confirm the ownership	Though it was mentioned in the documents that these lands were belonged to the government and it had been vested to the Corporation by Thin Planks Combined Board in 1991, there was no any other document in that regard. The required advices had been given to Ampara	Actions should be done to vest by confirming the land ownership.

audit.

Regional Manager through Manager Legal to present the documents if there were deeds to confirm the land ownership and discuss with relevant entities.

## 1.6 Accounts receivable and Payable

### 1.6.1 Receivables

#### Audit observation

#### Management Comments

#### Recommendation

(a) Actions had not been taken to charge the building rent receivable of Rs.89,502,660 from department of Forest Conservation from 2014 to 2021.

A Letter of Demand was also referred to obtain the rent receivables and, it was informed to the Department of Forest Conservation to pay that rent amount by informing even the Secretary to the Ministry.

Required actions should be taken to charge arrears income.

(b) The amount of advance given to timber suppliers at the end of the year under review was Rs.21,823,345 and, out of that, Rs.9,843,560 was advances that elapsed 02 to 05 years. The Corporation had not acted to recover them or get the works done related to that.

Not commented.

Actions should be done to recover the advances and get the tasks done regard to that.

(c) there was Rs.1,731,821 that should be charged from Ministry of Mahaweli Development and Environment and, out of that, Rs.1,661,488 was old more than 03 years.

Though it had taken actions to recover this amount for longer period, as it had been confirmed that the inability of recovery, it was informed that required action was taken to present for the recommendation of Audit and management Committee as per Public Enterprises Circular 1/2021 to write off that debt.

Actions should be done to recover money to be recoverable from entities in update.

(d) The amount to be recovered at the end of the year under review from the miscellaneous advances given by Rathnapura regional office was Rs.2,588,632. Out of that, the balance that exceeded 02 years was Rs.1,953,882.

It was the expenses that incurred to build roads to supply timber in worksites that released by Department of Forest Conservation and, actions are taken to recover when releasing securities deposited by contractors.

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| <p>(e) The amount to be recovered from credit sales from Ampara furniture showroom was Rs.13,091,111 and, out of that, Rs.7,767,938 was elapsed 02 years. Actions had not been taken to recover this debt amount.</p>   | <p>Not commented.</p>  | <p>Actions should be taken to recover debt amount in update and, legal actions should be taken to recover non-recoverable debts.</p> |
| <p>(f) out of the sundry debts for employees in Ampara regional office, the non-recoverable debt amount as at 31 December 2021 was Rs.247,365. Out of that, there were debt balances elapsed 13 years and, action had not been taken to recover those debt amounts.</p> | <p>It was stated that action would be taken to write off these prolonging unrecoverable debts by submitting to the Board of Directors.</p> | <p>Legal actions should be taken to recover non-recoverable debts.</p>   |

## **2. Financial Review**

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### **2.1 Financial Results**

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The operating results of the year under review amounted a profit of Rs.1,136,211,699 and, corresponding loss in the preceding year amounted to Rs.47,119,129. Accordingly, an improvement amounting to Rs.1,183,330,828 in the financial result was observed. The reason or the improvement was increase in sales of the year compared to preceding year by Rs.1,113,975,135.

### **2.2 Trend Analysis of Major Income and Expenditure items**

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The sales revenue in the year under review compared to preceding year by 43 per cent, financial income by 18.7 per cent were increased and, the operating income was decreased by 74 per cent. The sales and distribution expenses in the year under review were decreased by 6.2 per cent and, administrative expenses were increased by 4 per cent.

### **2.3 Ratio Analysis**

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The current ratio of the year under review was 3.9 per cent and, it was a decrease of 26 per cent compared to the preceding year and, the quick ratio was 3.2 per cent and, it was a decrease of 8 per cent compared to preceding year. The gross profit ratio in the year under review was 48.3 per cent and, it was an increase of 10.2 per cent compared to the preceding year and, the net profit ratio was 26.2 per cent. It was an increase of 83.2 per cent compared to preceding year.



### 3. Operational Review

#### 3.1 Identified Losses

<b>Audit observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) A quantity of sawn timber with 679,749 cubic decimetres had been taken as output from timber logs with 1,061,904 cubic decimetres valued at Rs.27,403,059 that were used in Ampara sawmill to convert into sawn timber in year 2021. Accordingly, the wastage occurred when timber conversion was 542,719.17 cubic decimetres of timber and, it was 51 per cent from total quantity of timber. Further, the general wastage when converting timber in to sawn timber even had not been calculated.	Not commented.	The wastage occurred as such should be calculated and, if that quantity exceeds, action should be taken in that regard.
(b) An additional cost of Rs.275,000 had been incurred as taking action to fix cameras fixed in office of Deputy Manager, in security guard room due to non-planning correctly when fixing CCTV cameras in Kaldemulla Complex.	02 televisions had been placed to watch CCTV footages. It was confirmed that the CCTV cameras were required near main guard room and, it was decided that it was suitable to fix television view in the office and CCTV camera near main guard room as the construction of new guard room had not been completed instead of very dilapidated guard room made of wood. As there was about 250 metres distance from furniture plant that fixed CCTV camera system to main gate, the CCTV and display view had been fixed from a universal cable through 4 steel poles from plant to main gate.	Action should be done to plan correctly before implementing tasks.
(c) it was revealed at the investigations that a loss of Rs.576,310 was occurred to the Corporation by conducting the auction held on Boossa Complex on 30 October	It was informed only to advise as per disciplinary order there. The explanations were called from relevant officers as per recommendations in the	Action should be taken to recover the losses.

2015 without proper auction board in contrary to the Circular guidance. Although the relevant officers had been released from relevant charge according to the investigation report, action had not been done by the Corporation to recover the loss of Rs.576,310 that occurred to the Corporation.

investigation report and, it was mentioned on losses. It was advised by the General Manager at that time to obtain recommendations from Deputy General Manager (Marketing) by considering the explanations. As the price increases and decreases of trunk inventories as per relevant advices was decisions of the Auction Board, the Deputy General Manager (Marketing) had given recommendations to accept that decision. Accordingly, the disciplinary order had been given by General Manager as Disciplinary Authority.

### 3.2 Management Inefficiencies

#### Audit observation

#### Management Comments

#### Recommendation

(a) There were sawn timber of 1,112,166 cubic decimetres valued at Rs.114,056,534 and timber trunks of 3,586,873 cubic decimetres valued at Rs.65,601,485 that were received as forest crimes and not included to the closing inventory but retained in the timber stores. The Corporation had not taken actions to deposit money obtained from sale of those timber by obtaining court order by informing the court on those timber trunks as per guidelines issued by Judicial Services Commission Circular No. 422 dated on 10 October 2018 until the legal matters completes or take into inventory books by calculating the value of those timber.

Not commented.

Actions should be done as per Judicial Services Commission Circular No. 422 dated on 10 October 2018.

(b) The government forest timber were prevailed in the Ampara timber stores from year 2015 and, total

Auction inventories were made by now to sale.

Actions should be taken to sell expeditiously.

quantity of trunks was 14,527 and its capacity of cubic decimetres was 1,172,921. It was observed at the physical observation that these old timber trunks were damaged severely.

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| (c) | Teak of 570,530 cubic decimetres valued at Rs.17,636,441 that received from government forests as at 31 December 2021 were in Batticaloa timber stores and, it was observed that they were prevailed from year 2018.   | Timber that received from government forests were remained in Batticaloa timber stores since year 2018 and, actions have been taken by now to present those all trunks by piling as inventories for the auction. | Actions should be taken to sell expeditiously.                       |
| (d) | Timber trunks with quantity of 400,808 cubic decimetres that donated in Ampara timber stores were 3,040 and, there were trunks that prevailed from year 2014. It was observed to the audit that those were piled here and there in the stores premises and they were being decayed.  | It was sold more quantity out of donated quantity by now. The actions were being done to submit for auction to sell rest of timber.  | The administrative matters of timber stores should be done properly. |
| (e) | It was not stored separately so as to identified easily the relevant timber related to timber received form government forests, donated timber and forest crime timber in Ampara timber stores. They were piled here and there in the timber stores premises improperly. Accordingly, it was observed to the audit that there was a probability of mixing these timber trunks each other, some timber trunks were covered with forest since longer period. | The storage of timber received form government forests, donated timber and forest crime timber separately had not been occurred and, the preparation works of trunks properly was being done by now.             | Actions should be done to maintain timber by classifying.            |
| (f) | Two buildings that stored sawn timber in Ampara timber stores was in a very dilapidated condition and, the roofs were in the condition of decaying and getting wet from rain. Due to this reason, there was a risk of destroying timber. Further, the production plant was   | Old sawn timber that were in timber stores had been removed. It has been submitted to the Engineering Division for required approvals to remove the stacks. It was also proposed to prepare a new stack.         | Actions should be done to repair buildings and keep timber safely.   |

in an unsafe condition due to the dilapidated condition of the timber stores. Actions had not been even taken to repair these buildings.

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| <p>(g) The stock of Ebony timber with totalling of 616 cubic decimetres as 169 cubic decimetres in 2016, 438 cubic decimetres in 2017, and 09 cubic decimetres in 2019 worth of Rs.415,757 in Ampara timber stores had been retained idle in the stores without taking actions to handover to production plants in State Timber Corporation or National Craft Council.</p>   | <p>It was advised by Assistant General Manager (Marketing) on 25 march 2022 to take actions to send a few pieces of timber with sapwood that were converted from Ebony tree to the Boossa stores and, to sell timber that converted from the rest of parts with sapwood through auctions and, actions are being taken accordingly.</p>   | <p>Actions should be done to use promptly.</p>   |
| <p>(h) An agreement was signed on 05 July 2021 between Ampara District Forest Officer and Ampara Regional Manager of Corporation for removing timber by falling down in 20 hectares in Lahugala-Morana and, the date of work completion was 30 September 2021. But the contractor had been offered to remove the timber by falling down on 17 September 2021 and the valid time period was 15 October 2021. Although the Department of Forest Conservation should handover the site on 30 September 2021 as per agreement, it had not been handed over the worksite even by 20 January 2022.</p> | <p>As the selected wining contractors had not agreed to remove the timber by falling down in worksite in Morana Bakmitiyawa, agreement was signed with the selected wining contractor from second bidding on 17 September 2021. It was handed over to the Department of Forest Conservation on 24 November 2021 by preparing worksite so as to suit for planting. The agreed duration was extended and, the supply of logs into the stores had been finished on 25 January 2022.</p> | <p>Action should be done to hand over the worksites on specified date as per agreements.</p> |
| <p>(i) 86 estimates for production works had been received to Ampara production plant during the year under review and, it was produced using remaining timber that was released for previous work for the required timber for 25 works out of that. Accordingly, it was observed to the audit that there was no a proper mechanism to issue timber form timber stores to production</p>   | <p>No commented.</p>   | <p>Timber should be issued according to a proper mechanism.</p>                              |

plant and it was unable to prevent the timber wastage occurred in the production plant under such condition.

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| (j) Though sawn timber of 265,862 cubic decimetres had been requested from stores for finished jobs in Ampara production plant, a timber quantity of 319,233 cubic decimetres had been issued. Timber was released in excess in a range of 02 per cent to 157 per cent exceeding the estimated timber requirement for 35 production works and, it had exceeded 42 per cent as a whole.  | Not commented. | Timber should be issued according to a standard.  |
| (k) There were 35 unfinished orders for welding work at the Ampara production plant from the year 2019 to January 2022 and, there were 90 furniture items worth Rs.109,587,380 that were completed welding work before year 2018 but not polished. Further, it had to incur high costs for transportation by handing over the order amounting to Rs.4,254,200 received from the Beruwala Pradeshiya Sabha to Ampara production plant without handing over to nearby plants. | Not commented. | Work should be finished promptly and, action should be done so as to minimize the cost. |
| (l) It was remained about 50 per cent of timber that were taken to furniture production in Ampara production plant and, it was not tend to produce by-products by using them. This remaining timber was piled up insecurely and a mechanism to utilize them had not been prepared.  | Not commented. | Actions should be done to minimize the wastage.   |
| (m) Although requests have been made since 2021 to get machinery worth Rs.49.6 million that required to achieve production targets, the   | Not commented. | Actions should be done to provide required infrastructure.                              |

Corporation had not acted to provide those machinery even by January 2022.

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| (n) A small amount of welding work related to 05 works, a small amount of polishing work related to 06 works out of 86 job assignments that received to Ampara production plant in the year under review were done by using permanent employees of the Corporation and, all the remaining works were done by private contractors. Salary of totalling of Rs.8,984,905 was paid to these employees in the year 2021 and work charge of Rs.6,087,245 had been paid to contractors only for welding works under short works. Accordingly, the performance of the permanent staff was remained at a very lower level and, the management had not acted to obtain efficient service from them. | Do  | Actions should be done to minimize the wastage.                 |
| (o) Although there were stocks since year 2012 as per inventory records of Ampara timber stores, it was not possible to identify whether the stocks were physically available or otherwise decayed.   | Not commented.  | A suitable internal control mechanism should be established.    |
| (p) Different types of sawn timber that belong to years of 2017 and 2019 that reserved to sell by dividing as auctioned timber of 124,928.75 cubic decimetres worth Rs.33,251,030 had been piled up unsafely in Ampara timber stores complex even by January 2022 based on damages due to improper usage and various other reasons.   | It was mentioned that those inventories were in physical and, they were slightly decayed. It was being prepared to sell all those inventories by now. | Actions should be done to auction promptly.                     |
| (q) A timber quantity of 366,112 cubic decimetres worth Rs.7,136,534 in the Ampara timber sawmill was   | Not commented.  | Required actions should be done to sell by converting into sawn |

decaying without being converted into sawn timber.

timber without letting decay.

### 3.3 Operational Inefficiencies

----- <b>Audit observation</b> -----	----- <b>Management Comments</b> -----	----- <b>Recommendation</b> -----
<p>(a) According to the physical stock verification reports of Kaldemulla Furniture Complex, a shortage of 03 furniture items worth Rs.736,400, a shortage of 13,520 cubic decimetres worth Rs.429,125 in relation to 48 logs and sawn timber stock of Terminalia Arjuna (Kumbuk) as 12,526 cubic decimetres worth Rs.401,789 in relation to 31 logs, and 1,528 cubic decimetres worth Rs.92,352 had not been included in the survey report.</p>	<p>Out of the 48 trunks mentioned as shortage, three trunks were transferred to Kaldemulla by the new stores on 22 January 2022 under transfer issues. Two trunks out of it were converted. It was confirmed that the rest of 43 trunks were in the stores yard safely even by now. A Terminalia Arjuna (Kumbuk) trunk was shown in the inventory book and inventory survey register as trunks even by now and, that trunk was also in the store premises. Further, the rest of 29 trunks were sent to another store through conversions and transfer issues.</p>	<p>Actions should be done to do Board of Survey activities accurately.</p>
<p>(b) The number of orders received in year 2021 to furniture production plan 3 of State Timber Corporation was 395 and, it was observed at the audit that 99 orders out of it equals to 25 per cent had not been completed during the year.</p>	<p>Not commented.</p>	<p>Actions should be taken to hand over by completing on scheduled date.</p>

### 3.4 Transactions of Contentious Nature

----- <b>Audit observation</b> -----	----- <b>Management Comments</b> -----	----- <b>Recommendation</b> -----
<p>a) A Deputy Regional Manager was appointed since August 2016 to a post of Regional manager in contrary to the Scheme of Recruitments and Promotions that executed since 2006. Due to this reason, Rs.677,597 had been overpaid as salary to this officer.</p>	<p>This was a process that occurred in the Corporation since 2011. The recruitments and promotions of employees had been done in contrary to the Scheme since 01 January 2006 and, it was identified approximately 439 such wrong graded promotions and</p>	<p>Actions should be done to give promotions by following proper administrative mechanisms according to approved rules.</p>

recruitments. It was referred to the Department of Management Services to take a decision by the Ministry based on the instructions of Board of Directors by continuously discussing the institutional effect occurred when correcting them and, an Action Plan was prepared as per instructions of the Department. Actions were being made to do the employee absorption process by external parties based on the instructions received from it. It was informed that this would be dealt with this after receipt of its decision.

- (b) Although an investigation had been conducted in relation to the irregularity occurred when totally falling down of 2172 Eucalyptus trees in Robgil worksite in year 2018, action had not been taken to conduct disciplinary investigation against the officers involved in this.
- The receipt of investigation report was delayed due to delay in investigation based on various reasons and lack of common agreements for committee conditions. It was reported that that report was not received yet. The Ministry Audit Management Committee had instructed to initiate a formal disciplinary investigation in this regard and, the Chairman has informed to submit a paper to Board of Directors for taking a clear decision regarding disciplinary order and disciplinary examination.
- Actions should be done according to disciplinary proceedings stated in “Chapter 4” of the Corporate Disciplinary Code.
- (c) It is controversial matter to the audit as the officers of the corporation have taken actions to buy and sell a stock of ornamental goods worth Rs.511,875 manufactured by external parties without preparing plans to make the corporation's production process efficient and without paying attention to the main functions legally assigned by the Act.
- Only the approvals given for this and letters and reports related to assignments and instructions had been forwarded to the Government Audit Division. The board approval had been granted to the committee report prepared to purchase wooden furniture from external suppliers with the aim of increasing the sales revenue of the Corporation.
- The Corporation should act to fulfil main functions approved by the Act.



### 3.5 Idle or Underutilized Property, Plant and Equipment

Audit observation	Management Comments	Recommendation
(a) Although 07 air conditioner machines valued at Rs.1,154,944 out of 08 air conditioner machines in Boossa furniture showroom had been prevailed in unusable condition being inactive since year 2018, required actions had not been taken to dispose them.	It was informed that actions will be taken to find out about the possibility of making the machines fit for use by discussing with agents in relation to repair of air conditioners and it not, dispose.	The required actions should be taken to repair or dispose.
(b) The stock of timber worth Rs.3,951,682 with 71,989 cubic decimetres that prevailed since before year 2019 had been remained idle in the Ampara timber stores without utilizing.	The 71,989 cubic decimetres that prevailed since before year 2019 was consisted of timber such as Pinnata, SPU, Micro, Ginisapu, Lunumidella, 1 class, other, 3 class, Sapu. These were not used for furniture production. And, they were old inventory more than 10 years. Therefore, sawn timber stocks were being prepared for sale through auctions	Required actions should be taken sale timely.
(c) 33 items of goods worth Rs.1,198,758 in Ampara furniture showroom had been identified as defect goods and, some products had been elapsed more than 10 years by producing.	Furniture were put up for sale after submitting for approval of Price Committee recommended by the Regional Committee as remaining furniture from putting up for auction and defective furniture.	Actions should be taken to sell by repairing.
(d) The nail plate stock worth Rs.300,300 that received to Ampara Regional Officer in years 2010 and 2016 had been retained in stores without utilizing and, a suitable action in this regard had not been taken.	As actions had been made to obtain electricity poles and elephant fence poles from private lands, those nail plates had been retained in the stores.	Action should be taken to utilize promptly.
(e) there were 07 idle machines in Ampara production plant and, actions had not been taken to use them by repairing or dispose.	Not commented.	Actions should be taken to get a suitable measure promptly.

(f) There were furniture stocks in Ampara production plant prevailed since before year 2018 and, furniture worth Rs.36,374,180 were prevailed in furniture welding section.	Do	Do
(g) Though production plans should be prepared by considering annual average sales, without doing so, by increasing in production further during the year, a furniture stock worth Rs.22,880,300 were prevailed in the stores as at 31 December 2021.	Do	Furniture should be produced with a proper plan.

### 3.6 Human Resource Management

#### Audit observation

There were 91 vacancies in management level posts for a longer period. Officers were appointed to cover up duties without recruiting for those positions.

#### Management Comments

Although the approval for recruitments for vacancies prevailed had been requested since year 2019, the approval had not been received yet for the recruitments as per circulars and policies issued by the Government from time to time prohibiting recruitments. Acting/covering appointments were made for essential posts to continue the operational process and accomplished duties and, this situation would be rectified after the receipt of the approvals for the recruitments.

#### Recommendation

Recruitment matters should be done by obtaining approvals.