

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Ceylon Fertilizer Ltd (“Company”) for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

My opinion is qualified on the 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 qualified opinion.

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

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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Company 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 Company.

#### **1.4 Audit Scope (Auditor's responsibility for the financial statements)**

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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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

### 1.5.1 Non-compliance to the Sri Lanka Accounting Standard

Audit Observation	Comments of the Management	Recommendation
Disclosure has not been made in the financial statements regarding the deposit of Rs.1,634,633 placed against a letter of credit contrary to Section 66 of Sri Lanka Accounting Standard No. 01 and Section 6 and 7 of Sri Lanka Accounting Standard No. 07.	The deposit amounting to Rs.1,634,633.08 dated 2020.12.21 bearing LC No. 26131 has been entered in the LC charges account by mistake while crediting the ledger account. Journal entries were recorded to correct it.	Financial statement items should be classified and presented as per the standard.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The value of Rs.6,644,781 shown under other receivables in the financial statements of the year under review was a contingent asset arising from the legal action taken by the company against a private entity and the arbitration process was resolved by stating that the company has no right for that value on 16 September 2020. Accordingly, the current assets of the company were overstated due to this un-entitlement value.	Agree. However, An amount of Rs.3,409,491 should be recovered not a Rs.6,644,781 and the amount which retained as the gratuity of the procurement manager and not paid to him was included within that amount. It will also be adjusted in the next quarterly accounts.	Un-entitlement balances should be corrected.
(b) The balance of Rs.1,988,040 shown as a value to be paid to the private entity under current liabilities in the financial statements of the year under review was a contingent liability arising from the legal actions taken by that private entity against the company and the arbitration process was resolved by stating that company has no payable amount on year 2020. Accordingly, the current liabilities of the company were overstated due to this non-	Agree. Adjustment has been made in the accounts by using the journal entries in preparing the next quarterly accounts.	Non-commitment balances should be corrected.

commitment value.

- (c) The value of Rs.250,360,000 payable to the treasury for the stock of 2,276 Mt of MOP fertilizer which still remaining in the warehouses of the Agrarian Service Centers which given to the company for imported and distribution under Asian Development Bank loan has not been accounted in the statement of financial position.
- Agree.  
Adjustment has been made in the accounts by using the journal entries in preparing the next quarterly accounts.
- The payable amount should be identified and accounted.
- (d) Although Rs.398,730,236 shown as a subsidy value to be received from the Treasury for fertilizers of other crops is shown as a current asset in the financial statements, the information related to the outstanding balance of Rs.62,181,400 as of the year under review which was accounted in the year 2018 in that amount has not been submitted to the audit and the current assets has been overstated due to not allocate the provisions in this regard.
- Agree.  
The amount of Rs.62,181,400 is also included in the subsidy amount of Rs.398,730,236 which to be received for other crop subsidies. This amount has been requested from the Treasury several times under other crop subsidies since the accounting year 2018.
- Evidence should be confirmed and provisions should be accurately identified and accounted.
- (e) The decision in the case against four employees who were suspended for defrauding fertilizers in the year 2015/2016 has been given in the previous year stating they were convicted and accordingly, the value of Rs.2,716,956 which arrears of salary to be paid has been credited to the bad and doubtful debts expense account of the year under review instead of being adjusted to the retained earnings.
- Agree.  
The code numbers were mistakenly recorded when crediting the retained earnings account in the bad and doubtful debts expense and journal entries were recorded to correct it. However affect has not been occurred to the profit as it is recorded in profit/loss account itself.
- Expenditure related to the year should be correctly identified and accounted.
- (f) The company has filed a case due to the failure of the former procurement manager who was at that time to obtain the advance bank guarantee given by a selected contractor for carpeting the floor of the company's warehouse premises and it was decided that the said officer was convicted through the decision given on 08 July 2022 in relation to the case and the amount of Rs.917,910 which the arrears of salary to be paid to him was
- Agree.  
The code numbers were mistakenly recorded when crediting the retained earnings account in the bad and doubtful debts expense and journal entries were recorded to correct it. However affect has not been occurred to the profit as it is recorded in profit/loss account itself.
- Expenditure related to the year should be correctly identified and accounted.

credited to the bad and doubtful debts expense account of the year under review.

- (g) Non-current assets and profit for the year was overstated by Rs.1,714,791 due to the fact that the Rs.174,763 depreciation of the several fixed asset was over-accounted and Rs.1,889,554 of depreciation of several fixed assets was under-accounted. In addition, revaluation surplus of the assets and cash inflow under the operating activities in the cash flow statement were understated by Rs.1,714,791.
- Agree.  
Adjustments were made.
- Annual depreciation should be identified and accounted.
- (h) Although the balance of the Value Added Tax (VAT) payable account as on the end of the year under review is Rs.12,422,060, current liabilities were understated by Rs.2,947,421 due to being stated as Rs.15,369,481 in the financial statements.
- Agree.  
Some adjustments have to be made for the amount of Rs.12,422,060 mentioned as VAT payable in the year under review. They are the journal entries for the relevant balancing adjustments for the accounting years 2022 and 2023 and the correction of double recording of the same transaction. Adjustments are made to the accounts using journal entries in the preparation of the next quarterly accounts.
- VAT payable should be correctly identified and accounted.
- (i) The profit for the year under review was overstated due to an deficit of audit fee of Rs.143,860 for the year 2022/2023 and no provision for the audit fees payable for the 2023/2024 accounting year.
- Agree.  
allocation was not made for the audit fee for the accounting year 2023/24 and journal entries for provision of audit fee will be accounted in final accounts to be submitted on 2024.06.30 including the period the of up to 30 June 2024.
- Provisions related to the year should be done correctly.
- (j) Fixed deposit interest income and fixed deposit interest receivable income were overstated by that amount due to the addition of withholding tax (WHT) of Rs.14,898,930 to the fixed deposit interest receivable.
- Agree.  
Adjustments have been made to the accounts by using the journal entries when preparing the next quarterly accounts.
- Income related to the year should be identified and accounted.

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| (k) | Due to the fact that the treasury bill interest receivable income of Rs.15,987,198 was not accounted for 247 days of the reviewed year, the treasury bill interest income and treasury bill receivable interest income of the year under review were understated by that amount.  | Agree.<br>Adjustments have been made to the accounts by using the journal entries when preparing the next quarterly accounts.  | Income related to the year should be identified and accounted.   |
| (l) | Assets of the company had been overstated due to the fact that an amount of Rs.12,600,000, which not agreed to pay from the Road Development Authority was accounted as compensation receivable for a land of 28 perches that not received the title by the company for the Colombo Katunayake Expressway in the year 2009. | Agree.<br>Although the amount Rs.12,600,000 has been accounted as an amount to be received due to giving part of the land of the company to the Colombo Katunayake Expressway, the Board approval has been given to the remove from the accounts as there is no ownership of the land. Accordingly, action has been taken to remove from the accounts using journal entries.   | Action should be taken to properly confirmed and eliminated.   |
| (m) | The amount of Rs.472,000 paid for the repair of the Gampola regional fertilizer warehouse, which completed by now was not accounted as an expense in the year under review but was accounted as an advance.   | Agree.<br>The contract was awarded to the company that submitted the lowest price out of 03 bids for the repair of the roof and walls of the Gampola warehouse. By using two cheques, as this amount was paid before the work as an advance as well as the balance after the completion of the work. In future, action will be taken to pay only 20 percent advance payment based on the bid security for this type of payment. Also, adjustment has been made to the accounts in the preparation of the next quarterly account using journal entries. | Action should be taken as per the procurement guidelines and the expenditure related to the year should be identified. |
| (n) | A motorcycle owned by the company was revalued at Rs.345,000 during the year under review and the entire assessed value was credited to the revaluation reserve.  | Agree.<br>Adjustments have been made to the accounts in the preparation of the next quarterly accounts using journal entries to recover the under-recovered motorcycle loan of Rs.127,292 and the personal loan  | Action should be taken recovered the debtor balances and the revaluation reserve should be properly accounted.         |

balance of Rs.208,333 from the value of the motorcycle taken over by the company.

### 1.5.3 Unreconciled Control Accounts or Records

<b>Item</b>	<b>As per Financial Statements Rs.</b>	<b>As per correspondi ng Record Rs.</b>	<b>Difference  Rs.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The evidences regarding the debtor balance in relation to the difference of Rs.193,950,472 between the total value of the 27 balance confirmations received directly by the audit to confirm the debtor balances as on 31 March 2024 and the total value of the debtor balances mentioned in the debtor schedule and the accuracy of the debtor balance had not been confirmed to the audit.	6,009,044	199,959,516	193,950,472	Agree. Balance confirmation letters have been sent for twenty debtors as on 31 March 2024. Only a few confirmations have been received back after balance verification. Some debtors have been quit their addresses and Some debtors have been died. The Debtor balances are concentrating with the system. Also, most of the credit balances available at the Agrarian Service Centers are receivable for fertilizers obtained under various loans and grants.	Evidence relating to the difference as well as debtor balances should be identified and stated in the accounts.

#### 1.5.4 Other

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The bus No ND-4764 purchased by the welfare association was registered under the name of Ceylon Fertilizer Company Limited and this bus was not included in the financial statements of the company.	Due to Welfare Society is not registered; this bus has been purchased by using the funds of the Welfare Society under the name of the company. Therefore, the right of this bus belongs to the Welfare Society. The payment of the Rs.2 lakhs which is the remaining amount of the loan given by the company to the Welfare Society has been made.	Action should be taken to settle the ownership of the bus.
(b) The total amount of Rs.22,511,823 received directly into the three bank accounts of the company by 31 March 2024 has been accounted in a Receipt in Advance account instead of correctly identified and adjusting to the accounts. There was a unsettled balance of Rs.5,322,040 from the year 2012 to 2021 has been included in that. In addition to that Rs.2,479,448 directly received to the bank had also been accounted in the Receipt in Advance Other account without settlement.	Agree. The balance of the Receipt in Advance account as at 2024.03.31 is Rs.22,511,823. The Rs.5,322,040 was include in these balances for the period 2012-2021. Advance received from these customers has been accounted as unrecognized balances for the sales in the respective years. Such balances will be repaid as per written requests received from the respective customers. Or arrangements will be made to record in the other income account on the approval of the Board of Directors. Accordingly, action will be taken to adjust the advance receipts related to the period 2012-2021 mentioned here to the accounts on the approval of the Board of Directors in the next accounting year.	Receipts should be recognized and accounted.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The receivable balance due to stock shortages of warehouse officials amounting to Rs.7,933,189 has not yet been collected even by the date of this report .	Disagree. The amount of Rs.714,753 in the year 2012 should be received from the stock officers of the warehouse No. 01 at that time. Out of this amount of Rs.476,502 has been recovered in the accounts submitted on 2024-06-30. The case number - 255/2020M has been filed in the Gampaha District Court to recover the remaining amount of Rs 7,694,938 due from the former stock officer due to fraud of fertilizer of the Pothuvil regional fertilizer warehouse. The reason for	Actions should be taken to recover the receivable balance.



under-recovery of Rs.57,100 to be received from Mr. Gunasena is that the amount has already been collected from the relevant regional manager. The amount of Rs.874 has been paid by the relevant stock officer.

- (b) It was observed that the balance of trade debtors which more than 06 years of Rs.42,952,277 to be received from 03 distributors has not been recovered even at the date of audit.
- Agree.  
Balances are not confirmed here. The reason was that this amount deposited by a customer in the Anuradhapura court based on a court decision. Since the entire amount related to that incident has been paid to our company by the respective delivery agent, the amount deposited in the court is credited to our company's account, so the amount will be given to the delivery agent from time to time. This amount of Rs.20,000 has to be returned, so a negative balance is shown.
- Loan balance which un-entitlement should be settled and debtor balances should be recovered.
- (c) The company had not been taken action to recover the total debtor balances of Rs.13,194,202 which from 6 to 10 years and a miscellaneous debtor balance of Rs.347,119 which exceeded 06 years which to be received from two authorized dealers
- Agree.  
Balance confirmation letters were sent to the debtors who included in the balance of the authorized dealers of the company which more than 6 years and only a very few of them have confirmed the balances. Also, it is not possible to confirm the money of Rs.347,119 and Rs.30,000 mentioned here. Accordingly, this information will be submitted to the Board of Directors and the accounts will be adjusted in the next accounting year based on that approval.
- Action should be taken to recover the loan balances.
- (d) The trade debtor balance is Rs.295,631,164 as on 31 March 2024 and provision of Rs.142,336,500 has been made for damages and it is an unusual percentage of 48 percent of the total trade debtors, so it is observed that there is a risk of recovering the balance of the trade debtors and also the company had failed to take adequate action to recover the trade debtor balance.
- Disagree.  
The loan amount of Rs.142.3 million stated in the above account is the balance to be received which more than 10 years from government institutions like Janatha Estates Development Board (Rs.37.8 Million), State Plantation Corporation (Rs.35.9 Million), Ampara Assistant Director of Agriculture (Rs.12.5 Million), private institutions and authorized dealers. Case No.255/2020M-Gampaha District Court- Ceylon Fertilizer Company Limited vs. A.D.C Alvis has been filed and adjudicated unilateral and its decision is scheduled to be given on 2024.11.27. Case No.-51/2021/M- Gampaha
- Action should be taken to recover the loan balances.

District Court- Ceylon Fertilizer Company Limited vs. R. Mahindapala (Sachinta Stores) the decision to recover this amount is scheduled to be given on 2024.09.05. A Case No.7810/M was filed to recover the amount of R.936,100 due to the fertilizer issued to the former sales representative W.DB Weerasinghe and Askezi is scheduled to be executed against him due to the failure to pay the amount agreed in the court. A sum of Rs.42,932,276 to be paid to our company for the liquid fertilizers which given to the Agrarian Service Centers by Nihal Kumara Gamagedara, Consumer Union Association and Zaburkhan Ameer Khan as agents for the distribution of liquid fertilizers. Adequate actions have been taken by the company to recover these loans.

### 1.6.2 Payables

Audit Observation	Management Comment	Recommendation
(a) Although a miscellaneous creditor balance of Rs.96,869,463 has been stated under current liabilities, it was observed to the audit that sum of payable balances of Rs.57,524,469 which exceeded the period of one year was included in that amount and out of that Rs.13,879,335 were belong to the period between 2008 and 2020.	Agree. Transport and handling costs of Rs.9,966,808.94 for the period from 2008 to 2021, rates and rent, telephone and electricity charges, security expenses and repair costs was included in the Rs.13,879,335.00 which included the various creditor balances. Adjustments have been made using journal vouchers for under and over provisions related to Rs.9,966,808.94.	Payable balances should be settled on proper approval and current liabilities should be identified correctly.
(b) The amount of Rs.18,043,059 which recovered from time to time since 2014 by the company after filed a case on various irregularities committed by the wholesale officers and sales executives of the regional fertilizer warehouses had not been remitted to the treasury.	Agreed. The amount of Rs.18,043,059 mentioned to be remitted to the Treasury will be remitted in the next accounting year.	Arrangements should be made for proper settlement of treasury remittances.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. PED 04/2023 dated 2023.12.11	When paying bonuses to employees of public sector companies, the company should have made a profit during the financial year 2022 and paid at least 30 percent of the profit after tax as dividend to the Consolidated Fund. Nevertheless, Rs.6,198,833 had been paid as bonus to the employees of the company during the year under review without remitting the dividends related to the financial years 2021/2022 and 2022/2023 by the company.	Agree. Rs.29.4 million, Rs.15 million, and Rs.22.2 million have been paid In the years 2021, 2022, 2023, respectively as dividends so far. The amount to be paid as dividends has been decided according to the profit related to those years in the Annual General Meeting. Accordingly, dividend payments will be made in future also according to the decisions taken in the Annual General Meeting.	Dividend payments should be made as per the provision of the circular.

## 2. Financial review

### 2.1 Financial results

The operating result of the year under review amounted to a profit of Rs.141,078,916 and the corresponding profit in the preceding year amounted to Rs.120,800,836. Therefore, an improvement amounting to Rs.20,278,080 of the financial result was observed. The reasons for the improvement are increase in financial income loss and decrease in financial expenses.

## 3. Operational review

### 3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the main objective of the company is to make profit, it had been continuously incurring operational losses for many years and the operating loss percentage had grown from 04 percent to 157 percent in the previous 05 years from the reviewed year. It was observed that the operating loss of the company has been converted into a net profit from the interest income earned on the financial investment every year.	Agree. Ceylon Fertilizer Company Limited is a 100 percent government company, so it has to work according to the existing government policies. Accordingly, fertilizers have been provided to the farmers in accordance with the system of subsidized fertilizer distribution in the last period and government policy. Also, no profit was made through the free distribution of imported fertilizers to farmers under various loans and grants in the year under review and only reimbursement of expenses incurred for	Actions should be taken to increase sales revenue.

Accordingly, it was observed that the top management has failed to increase the sales revenue.

operations was done. However, due to they have come to the task of selling fertilizers on behalf of the open market after the amalgamation of the 02 public companies and since the excess number of employees have been retired under the compulsory retirement compensation scheme, it is expected to make an operating profit by reducing the operating expenses.

(b) 701 of 500 ml bottles of Nano nitrogen liquid fertilizer with a purchase value of Rs.1,423,030 which remaining in warehouses without distribution to farmers have expired by December 2023 and action had not been taken to informed the relevant authorities to take necessary actions before the expiry of this stock of fertilizer which was imported at the expense of the government without incurring any cost by the company.

Agreed.

All the Nano urea liquid fertilizers that we received were distributed according to the distribution plan given by the National Fertilizer Secretariat in the year 2021. The distribution process was coordinated according to the relevant distribution plan of the National Fertilizer Secretariat in this regard and the next steps to be taken have not been informed regarding the remaining Nano-nitrogen liquid fertilizers.

Immediate action should be taken regarding the stock of fertilizers concerned.

### 3.2 Idle or underutilized Property, Plant and Equipment

#### Audit Observation

An initial expenditure of Rs.676,730 has been incurred for the construction of a holiday resort in Kataragama area and the construction work has been temporarily stopped as per the decision of Board of Directors dated 26 February 2016. Although the company had informed on many occasions that this land would be used for productive purposes, actions have not been taken to restart the construction work or to use it for any other productive purpose by the end of the year under review as well as it was observed that incurring such aforesaid expenses without a long-term plan is idled.

#### Management Comment

Agree. Although this advance amount gave for demarcation of the boundary of the land related to the Kataragama proposed bungalow has been given to the Regional Secretariat, the amount of Rs.676,730 has been shown as capital work-in progress due to non-receipt of documents to settle the money despite the completion of the work. Adjustment has been made using journal entries from the accounts relating to 30 June 2024 for this amount.

#### Recommendation

Existing resources should be used on a proper plan.

#### 4. Effectiveness of Management Information System

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Although the annual maintenance contract of the Enterprise Resource Planning System (ERP) purchased by the company at a cost of Rs.22,910,795 was renewed for the period from 01 January 2024 to 31 December 2024 at a cost of Rs.1,421,787, it was observed during the audit that the computer system has not been not effectively utilized and the aforesaid expenditure has been idled due to manual typing of the financial statements and ledger accounts of the year under review.</p>	<p>Agree. In the year 2021/22, arrangements were made to prepare the final accounts only through the system, where a great effort was made to resolve the problems arising in preparing the cost of sales through the system. It was decided later to prepare final accounts using manual method and system for 03 years. Accordingly, the initial entry was made through the system and the final accounts were prepared in manual system.</p>	<p>The system should be established to cover the entire process.</p>