

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Colombo Commercial 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
(a) Contrary to Section 28 of Sri Lanka Accounting Standard No 02, the stock of fertilizers amounting Rs.1,409,592,766 has been accounted only at cost without considering the net realizable value as at the last day of the year under review.	The expired stock of fertilizer had not been recognized when calculating the physical stock of the Company as on 2024/03/31 and although despite the existence of slow moving stock, the current market value of the stock was shown to be higher than the cost value of the stock. Accordingly, our company was done the final inventory calculation correctly.	Stock should be valued at the lower of cost and net realizable value.
(b) Due to the fact that not being able to identify individual balances and complete time analysis by allocating the money received for settlement of debtor balances from Agrarian Service Centers, other institutions and individuals and making adjustments in the respective accounts, the company has been failed to allocate the provision for impairment losses in accordance with paragraph 96 of Sri Lanka Accounting Standard 36. The amount of Rs.37,384,363 which was allocated amount of impairment made in the year 2018 was deducted from the debtor balance as the impairment of debtor in this year and its accuracy could not be confirmed during the audit.	Closed attention will be paid to this and necessary action will be taken to make the relevant corrections.	A debtor age analysis should be done and provisions for bad debts should be identified.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) In other receivable balance of Rs.11,165,141,941 included in the financial statements as on 31 March 2024 was included Rs.199,373,874 outstanding unsettled balances which is more than 01 year and provision has not been made for these unsettled outstanding long-term receivable balances.	Attention will be paid to this issue and necessary action will be taken to make the relevant corrections.	A debtor age analysis should be done and provisions for bad debts should be identified.
(b) Investing activities were overstated by that amount due to inclusion of receivable interest income amounting of Rs.149,581,640 in the investing activities in the cash flow statement.	The action has not been taken to correct this accounting error.	Cash inflows and outflows should be properly accounted.
(c) The amount of Rs.5,138,726 which was received directly into the bank account of the company as of 31 March 2024 had been correctly identified and accounted for under deposits without adjustments to the accounts.	The necessary actions are being done by contacting the relevant banks to identify the direct deposits and necessary steps have been taken to prevent such problems from occurring in the future.	Direct deposit received should be identified and accounted for.
(d) The amount of Rs.6,360,182 payable to Ceylon Fertilizer Company Limited on 31 March 2024 has not been identified as an accrued expense.	This will be checked and appropriate corrections will be made.	Payables should be properly identified and accounted.
(e) Interest income of Rs.29,586,074 relating to the previous year was included within the fixed deposit interest income accounted for the year under review also.	Arrangements have been made to correct this problem which occurred during the preparation of accounts.	Income related to the year should be identified and accounted.
(f) The amount of Rs.166,760,000 to be paid to the Treasury for the fertilizer remaining in the warehouses of the Agrarian Service Centers from the stock of MOP fertilizer which imported and distributed under the loan assistance of the Asian Development Bank has not been accounted as a payable in the financial statements.	The amount related to the remaining stocks of the Agrarian Service Centers should be paid by the respective Agricultural Service Centers. Therefore, that stock is not in custody of the company.	Payables should be properly identified and accounted as well as the action should be taken to properly settle the values to be remitted to the Treasury.
(g) The amount of Rs.49,846,406 overpaid by the company to the Nano Nitrogen supplier was not accounted as receivable.	The necessary legal actions to recover the relevant amount have been already taken and related activities are being still ongoing by the Attorney General's	Receivables should be accounted in the financial statements and related actions should be taken to

Department. Also, this amount recover the was not paid by the funds of the overpayments to the company nevertheless, it was supplier. directly paid by the Treasury. Therefore, this amount is not a receivable amount to the company. The company was only acted as an intermediary in this matter.

- (h) The cost of packing materials amounting to Rs.19,721,956 which included in the financial statements was not physically verified as on 31 March 2024 and hence its accuracy could not be confirm to the audit. Disagree. An annual stock verification was also carried out for packing materials and its report is included in the Stock Verification Report. Physical stock verification should be done and value should be accounted.
- (i) While a case is currently in progress to recover the amount due from the storekeepers for the stock shortage of Rs.3,360,430 occurred in the year 2014 in the Negama regional warehouse, it was not disclosed in the financial statements and the amount was included in the sundry debtors without accounting as stock loss. Adjustments have been made for these stock shortages in the years 2012 and 2014 and the amount payable to the company by the warehouse keepers was stated as this. Legal actions has also been taken to recover that money. Stock shortage should be removed from debtors balance and properly classified and presented.
- (j) The Server & Network costing of Rs.1,085,300 used for accounting purposes was not capitalized and it was accounted under work-in-progress. Actions have also been taken to correct this problem now. Annual depreciation should be correctly identified and accounted.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Comments of the Management	Recommendation
(a) Output VAT	25,070,186	25,693,035	622,850	The reason for the difference between the Output VAT ledger account and the tax report is due to a correction made during the preparation of the final account after submitting the tax	Accurate VAT amount should be identified and stated in accounts.

returns and the difference of Rs.622,850 will be corrected through the tax report the next quarter.

(b)	Input VAT	52,131,731	35,270,829	16,860,903
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The reason for the difference in the input VAT of Rs.16,860,903 is that although we requested in writing a tax invoice for the amount of tax paid to the Sri Lanka Customs, we have not received the tax report by the date of submitting the tax report. Therefore, since payments without tax invoices cannot be included in the VAT schedules, the VAT amount paid to Sri Lanka Customs was not included in the first quarter VAT report. After receiving a confirmation from Sri Lanka Customs, the tax value will be included in the VAT report. The VAT input carried forward balance of Rs.9,577,794 will be accounted as a current asset.

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(c)	The carried forward input VAT	-	9,577,794	9,577,794	-Do-	-Do-
(d)	Opening stock balance- Stock report and physical stock verification reports prepared by Enterprise Resource Planning System (ERP)	30,472,835	689,930,496	659,457,661	Action has been taken to correct this error.	Differences should be corrected by comparing computerized stock reports and physical stock verification records.
(e)	Closing stock balance- Stock report and physical stock verification reports prepared by Enterprise Resource Planning System (ERP)	1,409,592,766	932,604,867	476,987,899	Action has been taken to correct this error.	Differences should be corrected by comparing computerized stock reports and physical stock verification records.
(f)	Debtor balance and schedule of the debtor balance	280,994,295	3,867,946,767	3,586,952,472	Actions will be taken to correct this issue.	Correct amount should be stated in accounts.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
(a) Interest receivable from Treasury	185,830,554	Confirmation letters regarding loan balance	It is expected that immediate attention will be given to this matter and a quick solution will be attained in consultation with the Treasury.	Receivables balances should be identified and accounted for as well as the relevant information should be present to the audit.
(b) Debtor balance	280,994,295	Balance confirmation letters	Actions will be taken to correct this issue	Arrangements should be made to present the necessary evidence to the audit.
(c) Short-term loans	32,488,030	Bank confirmation letters regarding loan balance	Actions will be taken to avoid such problems in the future.	Arrangements should be made to present the necessary evidence to the audit.
(d) Customer deposits and received	27,277,854	Receipts	-Do-	-Do-
(e) Recoverable compensation	2,273,324	Documents to confirm compensation claims	-Do-	-Do-
(f) Withholding Tax (WHT)	8,446,844	Documents to confirm over-recovery of withholding tax	Actions will be taken to avoid such problems in the future.	Arrangements should be made to present the necessary evidence to the audit.

1.5.5 Receivables

Audit Observation	Management Comment	Recommendation
The company had not been able to recover the debt balance amounting to Rs.22,053,338 related to the issuance of fertilizers to 15 different private companies on credit basis during the period from 1994 to 1997 and provisions for impairment had not been made based on that amount.	These balances are debtor balances that existed before the privatization of the company i.e. before the year 1994 and immediate action will be taken to write off these balances as bad debts since the company does not have any related documents by now.	Action should be taken to recover the loan balances.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprise Circular No.PED 08/2022 dated 21 December 2022.	Although, when the payment of allowances on leave saved to the employees of the companies should have paid the dividend/tax payable to the treasury in respect of year preceding the year under consideration for such payment, leave allowances of Rs.2,571,736 totalled for short leave and medical leave saved by the employees of the company and allowances of Rs.1,545,249 totalled for medical leave saved by the executive officers had been paid without paying the dividend payable for the 2022/2023 by the company.	Dividends for the year 2022/2023 have now been remitted to the Treasury by now.	Action should be taken as per circular instructions

1.7 Cash Management

Audit Observation	Management Comment	Recommendation
The interest of Rs.416,610,193 earned from matured fixed deposits throughout the year had been re-invested in fixed deposits by the company. it was observed during the audit that In a situation where the company has excess cash invested in fixed deposits of Rs.3,637,072,070, the proper cash management has not been done in the year under review due to the fact that the bank overdraft facility was obtained and Rs.3,232,997 was paid as interest for that.	Disagreed with this Therefore, the funds of the company have been properly managed and if the funds invested in fixed deposits were used without using bank overdraft facilities for the working capital requirements of the company, there would have been a loss of interest income from fixed deposits. Therefore, the funds of the company have been handled always with proper management.	The financial strength of the company should be improved.

2. Financial review

2.1 Financial results

The operating result of the year under review amounted to a profit of Rs.292,753,580 and the corresponding profit in the preceding year amounted to Rs.361,195,599. Therefore, deterioration amounting to Rs.68,442,019 of the financial result was observed. The reasons for the deterioration are increase in operational loss and income tax.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although 1,809 bottles of 500ml of Nano Nitrogen liquid fertilizer worth of Rs.3,672,270 which not distributed to the farmers that expired by December 2023 are available in the warehouses of the company by 31st May 2024 and 701 bottles of liquid fertilizer worth of Rs.1,423,030 are available in the warehouses of Ceylon Fertilizer Company Limited, action had not been taken in this regard.	It is emphasized that this problem is not due to inefficiency or omission of our company and we have distributed all fertilizers according to the distribution plan provided by the Ministry of Agriculture. Although It was informed in writing that regarding the remained 1,809 bottles of 500ml liquid Nano Nitrogen fertilizer and inquiries were made at the ministry level about the actions to be taken for that, nevertheless this amount of fertilizer remains in the company's warehouse due to not receiving proper reply.	Fertilizer stock should be distributed before expiry.
(b) Out of The subsidy value of Rs 2,112,468,040 related fertilizer held by the company as at 29 February 2016 due to change in the subsidy policy to the method of giving money to farmers by ending the release of subsidized fertilizers in 2016, without remittance to the Treasury, a Rs.780,101,025 had been write-off as interest expenses stamp and stationery charges on short term loans taken for import of fertilizers. Accordingly, the value retained without payment to the treasury was Rs.1,332,367,014 as at 31 March 2024.	Discussion has already been made with the Treasury regarding this issue and this issue can be resolved with the agreement of the Treasury in the future.	The values to be remitted to the Treasury should be properly settled.
(c) A USD 5,707,739.40 which should payable the foreign supplier for KCL fertilizer imported in the year 2021 was not paid on the due date due to lack of foreign exchange and the necessary money for that was released from the treasury at the rate of USD 250,000 per week to the bank account of the company after agreeing to pay the money as instalments to the supplier and also the company still has an amount of Rs 31,791,644 due to the change in the exchange rate after paying all the money payable to the supplier including the bank charges, nevertheless it has not been remitted to the Treasury.	Necessary action in this regard will be done without delay	The values to be remitted to the Treasury should be properly settled.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
An initial expenditure of Rs.3,732,901 was incurred in the year 2018 for the construction of a warehouse in the leased land in Hambantota, nevertheless, any construction had not been carried out till the date of this report.	There was a plan to build a warehouse complex on the land in Hambantota, nevertheless, the project was stopped due to changes in government policy again. It is expected that the board of directors of the company will be informed about this issue and further action will be taken and accordingly this issue will be resolved as soon as possible.	Resources should be utilized effectively.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
Although import and distribute chemical fertilizers is the main task of the company, 396.45 MT of Urea Fertilizer which was to be auctioned at Sri Lanka Customs was purchased in the year under review for Rs.56,993,652 and 1200 MT of Urea Fertilizer was purchased from a local fertilizer importer for Rs.207,600,000. Due to the fact that in local procurement process, the minimum experience of 03 years mentioned in the bid specifications is not mentioned by the Departmental Technical Evaluation Committee in the bidder's bid documents, It was observed during the audit that it is not comply with the procurement guidelines to act ignoring it as an important specification while evaluating the bids by the evaluation committee.	Although the last year i.e. in relation to the financial year 2023/2024, the necessary arrangements for importing 8000 MT of urea fertilizer in accordance with the procurement rules, the bid security of the supplier has also been recovered to the company due to failure to supply the fertilizers. Also, even the necessary actions were made to import 20,000 MT of urea fertilizer again using the Expression of Interest (EOI) method, but due to a delay in the work that should be done at the ministry level; those activities have also been delayed. Also, with the aim of continuing the project of providing tea fertilizer at subsidized price for small tea plantation owners as per the government policy, the required urea fertilizer for that has been purchased from the supplier who offered the most suitable price and the lowest price after compared with the prevailing market prices at that time by using the procurement method and the marketing approval issued by the National Fertilizer Secretariat has been received for the sale of that stock of fertilizer. A copy of the relevant certificate is available. Furthermore, the Ministry of Plantation Industry has given permission to our company to obtain 396.45 MT of urea fertilizer from the stock of urea confiscated by the Sri Lanka Customs and accordingly our company has been able to obtain the stock of fertilizer without auction.	Arrangements should be made to conduct procurements in accordance with the procurement guidelines and make purchases on formal approval.