State Timber Corporation - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Timber Corporation for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 and Finance Act No. 38 of 1971. 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 Corporation as at 31 December 2023, 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 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

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 Corporation'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 Corporation'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 preperation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

		Non-Compliance with Sri Lanka Accounting Standard	Comments of the management	Recommendations
1.5.2 Accounting Deficiencies	(a)	Although the closing inventory value should be valued at the lower of cost or net realizable value according to Sri Lanka Accounting Standards 02, due to the inventory at being accounted for at cost value of Rs.2,467,626 which exceeded the net realized value of Rs.1,476,508 in relating to the 36 auction stock lots of Ampara Furniture complex, the current assets and net profit had been overstated by Rs.991,118 of the year under review.	This has happened because of the value of the entire stock with a large lot size was calculated at the same time and the relevant officials have been informed that the final stock should be calculated correctly in the future.	Action should be taken to value the closing stock at the lower of cost or net realizable value according to the accounting standards.
	(b)	Although the scrap value and useful life of property, plant and equipment should be reviewed and reassessed at least every financial year in accordance with paragraph 51 of Sri Lanka Accounting Standards 16, but the action had not been taken accordingly in relating to the fully depreciated assets at the cost of Rs.924,994,884 of property, plant and equipment which is no longer in use , at the end of the year under review.	The Audit and Management Committee/Board of Directors have decided to reach an agreement in this regard or also get the assistance of parties with special knowledge of valuation from external parties if necessary and carry out this work, due to the extremely high prices received from the Government Valuation Department for the valuation of these assets.	The scrap value and useful life of property, plant and equipment should be reviewed and reassessed at least every financial year in accordance with accounting standards.

Audit Observations	Comments of the	Recommendation

		Management	
(a)	Actions had not been taken to account under the non-financial assets of the land that the Nelumdeniya warehouse, which was purchased for Rs.325,000 in 1995, and the land owned by the corporation where the warehouses are located in Matale, Talawa, Anuradhapura, Medawachchiya, Kaduruwela and Minneriya. Furthermore, even the Jaffna office and Kappetipola office had been handed over to the corporation since 1969, but the action had not been taken to disclose through financial statements which the ownership of lands that are not confirmed by a deed.	Instructions have been given to the Deputy Manager (Legal and Administration) that he should discuss with the Divisional Secretary and take further action in this regard.	Action should be taken to value the land accurately, documented and accounted.
(b)	It was observed a difference of Rs. 19,090,192 by being the actual gratuity expense at the amount of Rs. 67,250,212 in the consolidated income statement related to the profit and loss statement, although the gratuity expense to be recognized in the profit and loss statement was Rs. 48,160,020 according to Note No. 17 of the financial statements of the year of under reviewed.	Answers not submitted.	The gratuity expense included in the profit and loss statement should be confirmed by the related and accurate calculation.
(c)	While unable to identify an amount of Rs. 1,464,814 which had been directly credited to the People bank account of the corporation and by being accounted as investment income, the investment income had over stated by that amount.	The interest amount received when closing the deposits of Rs.1,950 million in the People Bank and opening new deposits has been credited to the account. However, there is a difference in this amount with the withholding tax certificates which submitted by People Bank later.	Action should be taken to identify properly and accounted the income.
(d)	The equity of the corporation had been over stated and liabilities had been under stated due to not allocated of Rs. 43,196,324 to Employee Provident Fund (EPF) and Employee Trust Fund (ETF) payable for the day workers of the corporation for the prior years to	The prior allocations had not been made to the EPF and ETF funds that had to be paid in the case decided by the Matara Magistrate Court and the relevant amount has to be paid according to the	Action should be taken to identify the payble expenses and ccounting accuratly.

2022.		court decision.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not furnished	Comments of the management	Recommendation
The housing loan scheme jointly implemented by the State Timber Corporation and the State Mortgage and Investment Bank in the year of 1986.	1,687,268	Written agreement and director board decision to initiate the scheme.	Documents which containing the agreement or loan scheme have not been found.This deposit amount and the existing system has been implemented from 28 April 2023 to make it an effective and efficient welfare system by considering the non-implementation of the instructions given by the board of directors in the year 2008 in this connection.	The loan scheme should be maintained properly while demonstrating the legality.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comments of the Management	REcommendation
(a)	Actions had not been taken by the corporation to recover the security amount of Rs.10,108,490 out of the amount of Rs.15,945,070 which had exceeded of 02 years that deposited as security in the Department of Forest for the coupe. It had also not possible to get the security deposit for the completed of coupe due to the failure to obtain the certificates of vacate from the Forest Conservation Department for some of the assigned work sites.	Actions are being taken to release the security deposits which have not been released so far by studying the existing matters regarding the security deposits which have not been released and make recommendation with the participation of the officers of the Department of Forest Conservation and the officers of the State Timber Corporation.	Actions should be taken to collect the security deposit as soon as the relevant work is completed.
(b)	Actions had not been taken to recover the amount of Rs.240,299,687 out of Rs.966,058,091 which was existing since 1 year and more than 04 years in the trade receivable as at 31	It is scheduled to be written off the balances of government institutions that cannot be collected for a long time after submitting those to	Actions should be taken promptly to collect the amount due.

	December 2023.	the Audit and Management Committee and after receiving the recommendation of the committee, with the approval of the Board of Directors.	
(c)	The corporation had not taken action settled the advance of Rs. 149,999 given 5 years ago to a contractor for the construction of the Monaragala regional office.	It has been happened to be difficult to settle the advance due to not submitted of a final bill by the construction contractor.	Action should be taken to settle the advance given by examining the condition of the construction.

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

	Reference to Laws, Rules	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulations No. 571(3) of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken to settle the security deposits of Rs.1,012,292 which had exceeded of 2 years, detained by contrctors for coupe of Bandarawela division	The instructions have been given to the concerned officers that action should be taken for the conventional settlement of the respective advances.	Action should be taken to release the security deposit as per the agreement of the work sites where the work has been completed.
(b)	Code of Discipline of State Timber Corporation Paragraph 4.6	Although an entire disciplinary investigation should be completed within 09 months, but according to the information were furnished that there were 14 cases that have not been investigated by 31 December 2023, and 06 cases that have not been completed within the stipulated time.	The number of 05 cases have been completed. A formal assignment has been made to conducting the investigations in relation to 02 out of the 7 investigations that have been started. There are 02 number of cases that have to be started further investigation. The preliminary investigation reports of 05 out of 06 cases where investigations were not completed within the stipulated time have been submitted for issuing disciplinary actions.	Actions should be taken promptly to complete the disciplinary investigations.

1.8 Cash Management

	Audit Observation	Comments of the Management	Recommendation
(a)	Eventhough it had been passed 38 years for purchasing of 5000 ordinary shares by the Corporation at the amount of Rs.500,000 from the Land Reclamation and Development Company as at 31 October 1985 but any dividend had not been received until the end of the year under review and the attention had not been made for either recover these unprofitable investments and put them to productive utilization or receipt of dividend annually.	I would like to inform you kindly that it is possible to look into this matter in the future since the General Manager of the State Timber Corporation engaged as a representative of the Board of Directors of that institution.	Action should be taken to utilize the investments in an effective manner.
(b)	The corporation had lost an interest income of Rs.16,978,418 that should have been received due to the fact that 02 fixed deposits with an investment value of Rs.142,388,816 were withdrawn before maturity and not making profitable decisions regarding reinvestment and not maintaining liquidity position had affected the occurrence of such losses.	This fixed deposit had to be encashed due to our monthly income decreased by around at 50 percent as the adverse economic crisis in the country and had to be paid 70 million for letter of credit and 70 million as income tax instantaneously in the month of March 2023.	Actions should be taken to take more profitable investment decisions and maintain liquidity.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs 506,329,836 and the corresponding profit in the preceding year amounted to Rs.315,881,323. Therefore, an improvement amounting to Rs.190,448,513 of the financial result was observed. The reasons for the improvements are increase in investment interest income by Rs.271,190,201 and decrease in selling and administration expenses of the year by Rs.305,252,486.

3. Operational Review

3.1 Identified Losses

	Audit Observation	Comments of the Managemt	Recommendation
(a)	A loss of Rs. 2,952,271 was revealed which had been occurred in the sale of kumbuk stumps in the Umaoya lower valley development sites and a loss of Rs. 685,109 due to irregularities in the release of security deposits in Bandarawela district which was discussed in the audit and management	Umaoya -Action was taken to submit an interim report until the completion of the investigation report. Bandarawela - A committee has been appointed to send to the Secretary of the Ministry and submitted to the General	Action should be taken promptly to recover the losses incurred to the corporation from the parties involved.

	committee in 10 times and 07 times respectively, but even the investigations were completed, the losses could not be recovered.	Manager for signature on 16 May 2024.	
(b)	Action had not been taken to recover the losses occurred from the responsible officer which the corporation has to pay an amount of Rs .338,145 along with a surcharge of Rs. 187,463 according to the court decision given on 09 June 2023 regarding the non-payment of contribution to the Employee Provident fund on behalf of day worker.	The case has filed in Theldeniya Magistrate's Court regarding not crediting contributions to the Employees' Provident Fund and Employees' Trust Fund from the salaries of employer who worked as day workers in the Kandy Regional Office from 2013 to 2018. The amount and surcharge have been paid according to the relevant judgment.	Actions should be taken to recover the loss from the responsible officials.

3.2 Management Inefficiencies

Audit Observation	Comments of the Managemet	Recommendation
The corporation is being faced difficulties such as destruction of forest offence of timber, difficulty in managing timber management and storage facilities due to not taking actions relating to offence of timber as per the guidelines issued by the Judicial Service Commission No. 422 dated 10 October 2018 and it was observed that 159.904 cubic decimetres of stump timber and 30.933 cubic decimetres of sawn timber were decaying and the storage facilities were blocked in relation to Kandy region alone.	We have submitted to the Courts the Circular No. 422 issued by the Judicial Service Commission. Accordingly, I inform that action should be taken by the court and it is not by the State Timber Corporation.	Actions should be taken to prevent timber damage by following the guidelines of the circular.

3.3 Operational Inefficiencies

	Audit Observation	Commments of the Management	Recommendation
(a)	Although the expected production of 134,922 cubic meters of logs in 2022 was increased by 23,266 cubic meters to 158,188 cubic meters in 2023 and by being the actual production in those years was 103,121 cubic meters and 93,153 cubic meters, respectively and as a result, the performance of 76.4 percent in 2022 had decreased to 58.9	The economic crisis and the collapse of the construction industry in 2022, led to an unexpected decrease in the production and sales of pine timber due to a large decrease in the demand for pine timber. Notwithstanding it was etimated of an income at the amount of	Action should be taken prepare an appropriate procedure to achieve the expected goals from the annual action plan.

	percent in 2023. Similarly, even though the expected timber sales income of Rs.4,092 million in the year 2022 was increased by Rs.742 million to Rs.4,834 million in the year 2023 and by being the actual income in those years was Rs.3,624 million and Rs.3,081 million respectively in 2022, the performance of 88.6 percent in the year had decreased to 63.7 percent in the year 2023.	Rs.1,743,699,100 by selling of 80,648 cubic meters of pine logs in that year but only 35,752 cubic meters could be sold. However, the corporation was able to earn a profit of around 1,000 million at the end of the year by selling timber at relatively high prices and low production costs.	
(b)	The expected sawn timber production of 11,061 cubic meters in 2022 had reduced by 4,456 cubic meters or 40 percent to 6,605 cubic meters in 2023 and the actual production in the two years was 3,432 and 4,528 cubic meters respectively, the progress being 31 per cent and 68 per cent respectively. The earned income was Rs.373 million and Rs.293 million respectively from the expected income of sawn timber sale which was Rs.854 million and Rs.578 million respectively in these two years and progress towards achieving the targets in 2022 and 2023 was 43 percent and 51 percent respectively.	Although 2 sawmill machines were purchased in December 2022 for the production of chipped timber, the installation work was completed and it was used for the production of chipped timber around August 2023. The orders of the furniture units fell rapidly, which also affected the demand for the production of sawn timber due to the economic crisis in the country.	Appropriate procedures should be furnished to achieve the expected goals from the annual action plan.
(c)	It had expected to produce furniture at the amount of Rs. 783 million and earn an income of Rs. 995 million from the sale of furniture in the year 2022, but the actual production was Rs. 292 million and the actual sales income was Rs. 428 million, therefore the progress of those were 37 percent and 43 percent respectively. The expected production of furniture in the year 2023 was Rs. 498 million and sales of furniture at Rs.690 million and therefore the actual production at Rs.194 million and actual sales at Rs.303 million, the progress of those were only 39 percent and 44 percent respectively.	The past and present economic crisis in the country directly affected the demand for furniture. Therefore the, priority was given to wholesale sales in furniture factories and the necessary production was produced accordingly. similarly, actions were taken for the production of furniture, without obtaining the services of outside contractors and only employed the workers of corporation to meet the demand and produced the goods.	Appropriate procedures should be developed to achieve the expected goals from the annual action plan.

(d)	The case numbers had not been entered in the inventory records relating to 25 cases of forest offence timber value of Rs.2,443,000 at the Kandy Regional Office. The 132 number of forest offence logs related to pines forestry at Arathana 01/18 were piled up in Pallekele storage premises in such a way that they could not be identified separately according to each case.	This timber which was received long ago and has decayed over time, resulting in differences in book values and physical inspection of the stock. Since the pinus logs were piled up at several places in the warehouse yard, it was not possible to track all the stocks and therefore, it was not possible to ascertain the number of original logs related to the case.	Action should be taken to number the stock and store the stock accurately which can be clearly identified and those should be sold in the required manner.
(e)	The 16 number of furniture items value of Rs. 362,777 which had been received to the Pallekele showroom that had passed 5 years, remained unsold as at 31 December 2023.	Actions will be taken to sell it in the future.	Appropriate marketing promotion strategies should be applied.
(f)	It was not possible to finish the felling until the end of March 2024 and to start the felling until February 2024 in the second work site due to the fact that the Corporation has taken an unusual time to approve the invitations for tenders for the completion works of the Haputale Jayaminipura 01/003 pine work site and the Pallapitiya pine forest plantation given in the year 2022, which was received on October 25, 2021, and the delay in providing infrastructure and the felling were not carried out according to the appropriate timings by paying attention to the natural factors.	This was due to lack of approvals for work on the site, time taken for procurement and economic crisis and lack of proper market.	Action should be taken through a properly planned manner in order to make the procurement process efficient and the operations to be done in a formal and efficient manner.
(g)	It had to pay Rs. 41,854,672 for the private contractors for 1,157 removals in 2023, due to not establishing a proper system for removal of donated timber. Furthermore, it was observed that the removal of trees which should be removed immediately with high risk has been delayed due to the long duration it takes to get approval from the head office for the tasks costing more than Rs.100,000 and the removing of trees at a loss of more than Rs.15,000.	Agree on audit observations and the resources of the Telecom, Electricity Board, Local Authority and Municipal Councils are utilized in the case of an emergency. Increasing the financial allocations to the procurement committee and giving opportunities to give approvals and decentralizing financial allocations and financial powers of Rs. 350,000 have been given to the Assistant Manager in	A formal system should be established for disposal of donated timber.

		charge of zones and participating at the regional level and giving prompt approvals through mobile services. The existing forest offence donation circular will be updated and further actions will be taken to expedite this process.	

3.4 Idle or underutilized Property, Plant and Equipment

	Audit Observatiob.	Comments of the Management	Recommendation
(a)	A dust collector machine at the Pallekele factory and 03 mobile sawmills, which had been released by the court in connection with forest offence, had been left to rot idly without use for many years.	Arrangements have been made for sale by public auction.	Cautious attention should be paid to efficient utilization and maintenance of assets.
(b)	More than 75 percent of the 100 chain saws with the value of Rs. 35,800,075 purchased by the corporation without specifically identifying the need and distributed to 13 regional offices in the year 2023 remained underutilized due to not preparing a formal program for efficient use.	Employees will be recruited through Manpower and these machines will be used to maximum utilization in the future. The currently unused machines will be used according to the upcoming timber requirements.	The requirements should be correctly identified and the purchasing process should be streamlined to minimize the potential damage to the institution.

3.5 Human Resources Management

	Audit Observation	Comments of the Management	Recommendation
(a)	It was observed that daily office work and work site management and supervision were not being done properly due to there were 817 vacancies related to 103 posts in the State Timber Corporation as at 31 December 2023.	Despite repeated requests for recruitment to essential posts, approval was not granted and the Secretary of the ministry had been informed by the letter dated 17 July 2023 that only 53 vacancies in 20 posts have been approved by the Cabinet which had been submitted to the Public Service Recruitment Review Committee.	Actions should be taken to fill the vacancies and conducting activities properly.

(b)	The 23 numbers of employees had been appointed in 8 posts which had not approved by the Department of Management Services during the year under review.	Answers were not provided.	Action should be taken to recruitment of officers only for approved posts.