

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Fertilizer Company Ltd (“Company”) for the 09 months ended 31 March 2025 comprising the statement of financial positions at 31 March 2025 and the statement of comprehensive income for the 09 months then ended, statement of changes in equity, and cash flow statement for the 09 months 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 2025 and of its financial performance and its cash flows for the 09 months 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 Auditor's Responsibilities for the Audit of 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 skepticism 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 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
Although the company recorded cash in a control account designated as "Receipts in Advance" with the intention of subsequently transferring them to sales and other revenue accounts, the accuracy of the sales value for the period could not be verified to the audit because, as of the financial year-end, a sum of Rs.27,992,228 received by the company but not specifically identified remained unsettled in that account.	Agreed. All amounts receivable for sales were recorded in the Receipt in Advance account and the balances are represented which amounts received for fertilizer transportation for which sales had not been issued as at that date.	Receipts should be identified and accounted.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Although purchases and sales should be recognized at the time the ownership and risks of the goods are transferred in accordance with Sri Lanka Accounting Standard No.02, the company had not been recognize purchases and sales at the time of fertilizer receipt (GRN) and dispatch; instead, it had been recorded these transactions only when payments were made or received with adjustments for accruals and receivables being made in the ledger accounts only at year-end.	Currently, the GRN and Dispatch processes have been computerized, and accounts are automatically updated at the same time.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Based on balance confirmation letters provided by People's Bank as of the end of the period under review, the values of Treasury bill and REPO investments as well as the accrued interest income related to those bills were lower than the amounts recorded in the financial statements by Rs.39,622,953 and Rs.4,452,958 respectively and therefore, current assets and the profit for the year had been overstated by Rs.44,075,911 and by Rs.4,452,958 respectively.	Agreed. Action will be taken to rectify this in the next financial year.	The investment value and interest income relevant to the period should be accurately verified and recorded in the accounts.
(b) The profit for the year was overstated by Rs.3,814,272 because interest income of that amount which was part of the opening balance of interest receivable on Treasury bills and REPO agreements had been accounted as interest income for the period under review. Furthermore, the profit for the period and current assets had been overstated by Rs.51,213,252 because interest income receivable amounting to Rs.47,398,980 was recorded twice.	Agreed. Action will be taken to rectify this in the next financial year.	Interest income and interest receivable relevant to the period should be accurately calculated and recorded.
(c) As the interest income figure of Rs.486,567,428 reported under financing activities in the cash flow statement included accrued interest income amounting to Rs.295,818,965, the cash inflows under financing activities had been overstated by that amount.	It will be paid further attention to this matter and steps will be taken to properly represent the cash flow in the next financial year.	Cash inflows and cash outflows should be accurately calculated and recorded in the cash flow statement.
(d) The aggregate balance of the fixed deposit accounts maintained by the Company with People's Bank and Bank of Ceylon had been recorded in the financial statements lower than the total balances shown in the	Agreed. The value of the fixed deposit has been understated due to the interest receivable is not reflected in the fixed deposit account.	Value of the assets relevant to the period should be accurately valued and recorded in the accounts.

balance confirmation letters by Rs.197,869,358.

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| (e) | Due to the under-recording of fixed deposit interest income by Rs.59,523,629 for the period under review based on the interest income calculation schedule, the profit for the period and current assets had been understated by Rs.59,523,629. | Agreed. Action will be taken to rectify this in the next financial year. | Interest receivable and interest income relevant to the period should be accurately calculated and recorded. |
| (f) | Profit for the period under review had been understated by Rs.16,431,150 due to expenses relating to a prior period of the two amalgamated companies had been recorded in the expense accounts of the period under review. | Agreed. This error occurred because these expenses were not accrued for the prior period. It will be taken steps to rectify this in the future. | Expenses relevant to the period should be accurately accounted. |
| (g) | It was observed that cash outflows in the cash flow statement had been overstated by Rs.5,100,000 due to the fact that, although a payment of Rs.5,100,000 for the installation of the company's management information system was reported under investing activities in the cash flow statement, such payment had not actually been made during the period under review. | The error in the cash flow statement has been arisen due to the intangible assets account was debited instead of the work-in-progress account. | Cash inflows and cash outflows should be calculated accurately and presented in the cash flow statement. |
| (h) | Although only 20 percent of the contract value of Rs.5,100,000 had been completed in accordance with the agreement entered into with the company for the installation of the aforementioned management information system in above (g), the entire contract value had been recognized as an intangible asset and therefore, intangible assets had been overstated by that amount and due to payable to the company was recorded Rs.1,020,000 under accrued expenses and the remain under other creditors, work-in-progress had been understated by | Disagreed.
The sum of Rs.1,020,000 paid on April 24 has been accrued as it represents an expense relevant to the period under review. | Assets and liabilities relevant to the period should be correctly classified and accounted. |

Rs.1,020,000 and current liabilities had been overstated by Rs.4,080,000.

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| (i) | The profit for the period had been overstated by Rs.8,029,660 due to purchases of 125 metric tons of SA (Sulphate of Ammonia) fertilizer covered by purchase order number 2560 and received by the company on 04 July 2024 and 05 July 2024 was not recognized as purchases for the period. | Operational delays in issuing goods-receipt notices resulted in differences in the dates shown on the notices because the transactions occurred close to the amalgamation date. | Purchases relevant to the period should be correctly identified and recorded. |
| (j) | When comparing the opening balances of the amalgamated company with the closing balances of the two former fertilizer companies, a discrepancy of Rs.35,247,373 was observed in the value of retained earnings resulting in an understated of the equity company. | The reason for that discrepancy was that a set of expenses relating to prior years had been deducted from retained earnings in the accounts submitted for audit. | The opening balances of the amalgamated company should be correctly accounted. |
| (k) | Security deposits placed by storekeepers with the company were held in savings and fixed deposit accounts, which had a total balance of Rs.4,248,601 as of 01 July 2024. Although a sum of Rs.2,747,400 was released from the savings account balance for 53 officers who had left under the compulsory retirement scheme, the company's current assets and current liabilities had been overstated by that amount because the funds were credited to the security deposit account instead of the relevant bank account. | Agreed. Action will be taken to rectify this in the next financial year. | The payment of the security deposit relevant to the period should be correctly accounted. |
| (l) | Refundable bid bonds amounting to Rs.2,865,850 pertaining to the two amalgamated companies and outstanding for a period of 03 to 05 years had long been recorded as current liabilities without any action | Agreed.
Action will be taken to adjust this against profits in the next financial year subject to Board approval. | Action should be taken to verify the payable amounts. |

being taken to either refund them after consulting the relevant parties or recognize them as income subject to Board approval.

- (m) Although the Board of Directors subsequently decided that there was no need to proceed with the construction of a warehouse on the land in Hambantota belonging to the Sri Lanka Mahaweli Authority which was granted on a long-term lease basis by the letter of the Secretary to the Ministry of Mahaweli Development and Environment for the construction of a warehouse for the Colombo Commercial Fertilizer Company, an initial expenditure of Rs.3,732,901 incurred for this purpose in 2018 continues to be reported in the financial statements under Capital Work-in-Progress and action has not been taken to date to hand back the relevant leased land.
- Agreed. The process of handing over the land should be immediately completed.
- A letter regarding the handover of the leased land had already been submitted to the Mahaweli Authority by the date of the audit and several rounds of follow-up have been conducted since then.

1.5.4 Unreconciled Control Accounts or Records

	As per Financial Statements Record (Rs.)	As per corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
Bank Loan Balance	15,403,979,534	15,371,541,427	32,438,106	Agreed. Action will be taken to rectify this in the next financial year.	The correct value should be recorded in accordance with the balance confirmations

1.5.5 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
Although the debtor and creditor balances between the Ceylon Fertilizer Company Ltd. and the Colombo Commercial Fertilizers Ltd. should have been settled upon their amalgamation into the State Fertilizer Company Ltd. effective 01 July 2024, this had not been done. Accordingly, a debtor balance of Rs.240,570 was recorded under the trade debtor balance for the name of Ceylon Fertilizer Company Ltd. However, reasons were not provided for inclusion of Rs.4,857,456 in the related provision and audit was unable to verify the accuracy of the balance.	Agreed. Action will be taken to rectify this in the next financial year.	The debtor and creditor balances of the new amalgamated company should be settled.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
Outstanding loan balances due to the company from Agrarian Service Centres.	515,625,263	According to balance confirmation related to total amount of Rs.204,165,411 attributable to 259 Agrarian Service Centers out of the debtor balance recorded in the financial statements of the company, no such debts were owed to the company hence the audit could not confirm the accuracy and existence of those balances.	Agreed. It will be informed you that detailed responses regarding this audit query are being submitted via the attachments.	Evidence substantiating these balances should be provided without delay.

1.6 Accounts Receivable and Payable

1.6.1 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Action had not been taken to settle after verification or to write off in accordance with a proper procedure the sundry creditor balances of Rs.7,694,697 under the company's current liabilities and dated back to the 2008 and 2022 period which exceeding 05 years.	Agreed. Action will be taken to check the remaining amounts related to the value of the creditors mentioned here and to recognize them as income.	Action should be taken to verify the payable amounts.
(b)	The company had not remitted to the Treasury the sum of Rs.83,000,000 even by the end of the period under review, due for the 1,333 MT of TSP fertilizer purchased from the stocks sold under the subsidy scheme.	Agreed. The company has not yet made payments to the General Treasury for TSP fertilizer because approval to take over the fertilizer has not yet been received.	Amounts to be remitted to the Treasury should be remitted.

2. Financial Review

2.1 Financial Result

The operating result of the 09 months under review amounted to a profit of Rs.385,225,727 and the combined corresponding profit of Ceylon Fertilizer Company Ltd. and Colombo Commercial Company Ltd. in the preceding 09 months amounted to Rs.325,374,372. Therefore an improvement amounting to Rs.59,851,355 of the financial result was observed. The reasons for the improvement are increase in the sales income and decrease in cost of sales.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	A stock of organic fertilizer amounting to 2,487 metric tons valued at Rs.32,835,355 remaining largely unsold organic fertilizers purchased in the year 2021/2022 under the Eco-Friendly Local Fertilizer Purchase Project are mostly	Agreed. Arrangements are being made to supply them to government institutions and farms.	Effective actions should be taken regarding the remaining fertilizer.

available in the regional warehouses of Ampara, Horowpathana, Madawachchiya, Nochchiyagama, Badulla, Batticaloa, Dehigahalanda, Kondavil, Hingurakgoda and Embilipitiya. However, the actions to be taken regarding this fertilizer had not been specifically identified even the date of the audit when 04 March 2026.

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| (b) | Although 2,510 bottles of 500 ml liquid fertilizer worth of Rs.5,095,300 expired as of 20 December 2023 were in the warehouses of the company which had not distributed to farmers, and any action had not been taken in this regard even by the audit date of 04 March 2026. | Agreed. | Effective actions should be taken regarding the quantity of expired liquid fertilizer. |
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3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
Although the approved cadre for the new company is 181, it was observed that position for a Chief Internal Auditor had not been approved for this company which is fully state-owned enterprise and the company's actual number of employees was 161 as at audit date of 04 March 2026. Accordingly, it has been observed that there were 20 vacancies and out of that 10 were senior level positions, 05 were tertiary level positions, 01 was secondary level positions and 04 were primary level position.	A proposal has been submitted to the Department of Management Services to obtain approval for a cadre of 213 including the position of Chief Internal Auditor for the new company. A proposal has been submitted to the Secretary of the Line Ministry seeking approval to recruit suitable individuals for 18 essential vacant positions and it is intended to fill these vacancies immediately after approval is received.	Action should be taken immediately to fill the vacancies.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Although the financial statements must be submitted to the Auditor General along with the draft annual report within 60 days of the end of the accounting year as per the Financial Regulation 877(2)d inserted by Public Finance Circular No.01/2020 dated 28 August 2020 and paragraph No.6.6 of the Operational Manual issued with the Public Enterprises Circular No.01/2021 dated 16 November 2021 of Secretary to the Treasury, the financial statements and draft annual report to be submitted on 31 March 2025 relating to the financial year 2024/2025 had been submitted for audit 316 days after the end of the financial year, and the draft annual report had not been submitted.	Due to the amalgamation is an activity taking place outside the organization's day-to-day operations, carrying out the above tasks with a limited number of staff possessing limited experience contributes to the delays highlighted in the audit query.	Financial statements should be submitted to the Auditor General before the due dates in accordance with circular instructions.

4.2 Objectives and Corporate Plan

Audit Issue	Management Comment	Recommendation
According to the Corporate Governance Guideline for State-owned Enterprises issued by the Secretary of the Ministry of Finance as specified in the Public Enterprise Circular 01/2021, company's strategic plan prepared for a period of 05 years including the company's annual action plan and annual budget had not been prepared. However, the task of preparing the Corporate strategic plan for the new company had been outsourced to an external party for Rs.4,950,000 of which 60 percent, i.e Rs.2,970,000 had been paid on 31 January 2025.	An abbreviated corporate strategic plan was submitted to the General Treasury, nevertheless written approval for it has not yet been received.	Action should be taken in accordance with the circular instructions.

4.3 Annual Action Plan and Progress of targeted Activities.

Audit Issue	Management Comment	Recommendation
(a) Although the capital budget estimate for the financial year 2024/2025 included in the corporate plan of the amalgamated company submitted to the audit estimated Rs.100,000,000 for the purchase of a fertilizer mixing machine, such a machine had not been purchased until the end of the financial year. Even though the funds were subsequently allocated in the 2025/2026 financial year budget and appointed procurement and technical committees to carry out its procurement activities, the preparation and finalization of the bidding documents related to the procurement had not been completed by the date of issuance of this report. The previous companies had been carrying out the fertilizer mixing work using human labour for a long time at a huge cost and even after the amalgamation of those companies, approximately Rs.22,350,331 had been incurred for the fertilizer mixing work over a period of nine months.	After the amalgamation of government companies, an amount of Rs.125 million was estimated for the purchase of a mixing machine for the 2025/26 financial year, and the management expects that it will help grow the sales of mixed fertilizer in the open market for fertilizer. It is pointed out that the procurement process for the purchase of a mixing machine is currently underway and as indicated in the audit inquiry, it is not possible to reduce the cost of sales by Rs.22 million because even if the machine is used, human labour and electricity will still be required for the mixing process.	Procurement activities should be carried out within specific time frames according to the action plan and budget estimate.
(b) The audit observed that 61 percent of the sales made by the Hunupitiya head office during the 9 month period from 30 June 2024 to 31 March 2025 after the amalgamation of the company were made in connection with agreements entered into with the Small Tea Estates Development Authority, the Sri Lanka Tea Board, the Coconut Cultivation Board and the Agricultural Service Centers for the supply of fertilizer at subsidized prices or on credit, while the sales made directly by the new company were a low percentage like 39 percent.	For many years, direct subsidized fertilizer for paddy cultivation had been distributed through Agrarian Service Centers by the state fertilizer companies while direct and compound fertilizer had been distributed through sales agents by the private companies. Sales through the private sector have been decreased due to it must comply with financial regulations as a state-owned company and therefore it is unable to implement attractive programs as mentioned above. Furthermore, suppliers had been offered higher prices to the State Fertilizer Company	The company must work strategically to achieve its sales goals.

than to the private sector since fertilizer must be procured according to procurement guidelines. As a result, our company has been unable to offer attractive trade discounts to sales agents which have also led to a decline in direct fertilizer sales.

- (c) Although in the budget estimate approved by the Board of Directors of the Company for an 08 month period of the 2024/2025 financial year had estimated the sales volume of fertilizer for that period as 54,000 MT the actual sales volume for that period was 21,907 MT. However, although Rs.42.9 million had been estimated for sales promotion in that budget, apart from the expenses incurred of nearly Rs.41 million for the promotion of the new company during its establishment, sales promotion activities had not been carried out.
- The expected sales target could not be achieved in the 2024/25 financial year due to the failure of the supplier selected for the procurement of 20,000 MT of urea fertilizer to meet the procurement guidelines requirements. The resulting fertilizer shortage has been led to restrictions on sales.
- It was inform you that during the establishment of the new company, extensive publicity was given through print and electronic media and that it directly affects the growth of sales.
- Accordingly, it was inform you that the fertilizers under that brand will also be directly promoted during the promotion of the company. The operating expenses paid as per the agreement entered into with the Small Tea Estates Development Authority has been stated as commissions by the audit query that and that should be corrected as a payment made for operating expenses.
- The company should worked strategically to achieve its budgeted goals.