

Transactions report of the operating activities of the State Fertilizer Company Ltd - Nine month ended in 31 March 2025

The audit of operating activities of the State Fertilizer Company Ltd for nine months ended in 31 March 2025 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 National Audit Act No 19 of 2018. My observations on the functioning of the company during the period of nine months, which I consider should be report to Parliament in accordance with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka are appeared in this report.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In terms of Section 16(2) of the said Act, the Chief Accounting Officer shall submit to the Auditor General the annual financial statements of every audited entity together with the annual performance reports of those bodies within such period as may be prescribed by the rules.

In terms of Section 38(1) (d) of the said Act, the Chief Accounting Officer shall ensure that annual reports and other financial statements are prepared within the required time and in addition, the annual reports relating to the audited entity are presented to Parliament.

2. Audit Observation

2.1 Submission of Financial Statements

Audit Observation	Management Comment	Recommendation
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, 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, the financial statements and draft annual report to	Due to the amalgamation of the companies during this period, it was necessary to prepare 04 financial reports of both companies (31 March 2024 and 30 June 2024) and, develop and install a new software system suitable for the company's operations and enter balances into it, the preparation of the financial statements for 31 March 2025 has been delayed. Action will be taken to prepare and submit those financial statements as soon as	Financial statements should be submitted as per the Circular.

be submitted on 31 March 2025 possible. relating to the financial year 2024/2025 had not been submitted to the Auditor General as of the date of this report.

2.2 Existence of Assets and Liabilities

The Ceylon Fertilizer Company Limited and the Colombo Commercial Fertilizer Company Limited were amalgamated under the Companies Act No.07 of 2007 and the amalgamated company was incorporated as the State Fertilizer Company Limited on 24 July 2024 with effect from 01 July 2024. After considering the values of assets, liabilities, equity, income and expenses shown in the financial statements for the last three months period prepared by the two previous companies as on 30 June 2024 and the values included in the asset valuation report dated 15 December 2023 by the company, It was observed during the audit that those values were included in the financial statements of the new company through journal entries. Details are given below.

	Ceylon Fertilizer Company Ltd	Colombo Commercial Fertilizer Company	State Fertilizer Company Ltd As at 01.07.2024
	Rs.	Rs.	Rs.
Non-Current Assets	5,749,924,251	911,973,349	6,661,897,600
Current Assets	19,012,684,672	14,985,392,515	33,998,877,187
Total Assets	24,762,608,923	15,897,365,864	40,659,974,787
Equity	8,865,407,018	4,188,877,729	13,054,284,747
Non-Current Liabilities	9,754,930,014	5,029,084,779	14,784,014,793
Current Liabilities	6,142,271,889	6,679,403,356	12,821,675,245
Total Equity and Liabilities	24,762,608,923	15,897,365,865	40,659,974,788
Income	393,982,490	323,156,818	717,139,308
Expenses	869,518,812	396,187,539	1,265,706,351
Profit after/before Tax	(475,536,322)	(73,030,721)	(548,567,043)

2.3 Unreconciled Control Accounts or Records

	Audit Observation	Management Comment	Recommendation
(a)	During the re-bagging of the 4,350 MOP fertilizer stock held in warehouse	According to the stock collection in this warehouse, the entire MOP	The reasons for the difference should be

No.07 located at the former Ceylon Fertilizer Company Limited premises, a difference of 24.8 MT of fertilizer was observed as the amount of fertilizer re-bagged was 4,349.3 MT and 4,324.5 MT according to the report of the company's Manager (Distribution) and the report of the machinery supplier respectively. Furthermore, due to the MOP fertilizer stock in the warehouse was unaccountably store since December 2022 until now, it was impossible to physically verify the relevant fertilizer stock.

stock was divided into 07 sections in stacks and out of which the fertilizer stock of 05 sections could be counted while 02 sections remained uncountable. However, this uncountable stock was used for re-bagging activities using machinery.

identified and corrections should be made.

2.4 Receivables

Audit Observation	Management Comment	Recommendation
(a) Total receivable value from 401 Agrarian Service Centers to the Company was Rs.262,300,789 and out of which the total receivable value of Rs.4,590,340 from 23 Agrarian Service Centers was exceeding 05 years. However, a difference of Rs.188,829 was observed, since the balance in relation to 12 Agrarian Service Centers was Rs.9,373,358 according to the balance confirmation letters obtained while the balance according to the company's documents was Rs.9,562,187.	Out of the Rs.262,300,789 due from the Agrarian Service Centers mentioned here, Rs.4,590,340 is due for fertilizer supply on credit basis since 2006. This amount is received from 23 Agrarian Service Centers and they have also sent balance confirmation letters. Also, there may be various reasons for the difference of Rs.188,829 between the value stated in the balance confirmation letters of the 12 Agrarian Service Centers mentioned here and the value stated by our company. Special attention has been paid to the recovery of debts due from Agrarian Service Centers for a period of less than 10 years. And necessary actions have also been taken for that.	Receivable debtor balances should be confirmed and relevant recoveries should be made without delay.
(b) There was a debtor balance of Rs.42,952,277 due from three distributors over 05 years, a debtor balance of Rs.993,423 due from 07 Multi-purposes Cooperatives and a	Legal action has been taken to recover the outstanding balance of Rs.42,952,277 from three distributors for more than 5 years. Also, since the amount of	Receivable debtor balances should be confirmed and relevant recoveries should be made

debtor balance of Rs.65,442,258 due from private debtors and the company had not taken actions to verify the accuracy of the said balances and settle those balances as of the date of this report.

Rs.993,423 due from 07 Multi-purposes Cooperatives is a debtor balance that is being existed before year 1994 and no files or information related to it can be found, requests will be made to write it off from the accounts in the future. The amount of Rs.65,442,258 to be recovered from private debtors is the amount of money to be recovered for fertilizer supply for credit in the open market during the year 2016/17. Legal action has been taken against few debtors to recover this money.

without delay.

(c) The company had further failed to recover outstanding balances of Rs.93,255,538, which had been outstanding for more than 5 years, including Rs.37,833,346 to be collected from the Janatha Estate Development Board for providing fertilizer on a loan basis, Rs.12,543,845 to be collected from the Ampara Inter-Provincial Agriculture Office, and Rs.35,931,679 to be collected from the State Plantation Corporation, Rs.6,007,018 due from the Coconut Cultivation Board, Rs.807,650 due from the Pelwatte Sugar Company, Rs.120,500 due from the Ibbagamuwa Paddy Research and Development Institute and Rs.11,500 due from the Panagoda Army Headquarters.

The Deputy Director of Agriculture of Ampara has submitted a complaint to the Criminal Investigation Department regarding non-payment of loans. Letters have been sent to the Criminal Investigation Department on 2023.07.10 and 2024.02.06, inquiring about its progress. The Criminal Investigation Department has also informed that it is currently conducting investigations by obtaining information from active farmer organizations. Also, necessary actions are being taken to recover the amount due for the fertilizer given to the Coconut Cultivation Board on credit in the year 2023. Furthermore, the credit amount due from the Pelwatte Sugar Company has been examined and it has been decided to further investigate the relevant documents and information. Similarly, the amount of Rs.132,500 that is to be collected from the Ibbagamuwa Paddy Research and Development

Receivable debtor balances should be confirmed and relevant recoveries should be made without delay.

Institute and the Panagoda Army Headquarters is related to the fertilizer given on credit on the basis of approvals made by the Ministry of Agriculture, and letters have been submitted by the Ministry of Agriculture requesting this amount through the 2025/26 commitments and liabilities.

2.5 Operating Bank Accounts

Audit Observation	Management Comment	Recommendation
(a) Although the Board of Directors had decided to close 05 bank accounts maintained in the name of the old companies after the amalgamation and to carry forward the remaining 06 bank accounts in the name of the new company after 06 months of the amalgamation of the companies i.e. on 22 January 2025, those bank accounts had not been closed even after more than a year had passed since the amalgamation of the companies and as of the date of this report.	Although the Board of Directors' decision dated 2025.01.22 was given to close the above bank accounts, the form 20 should be submitted to the banks along with the Board of Directors' decision to close the bank accounts. Since there was a delay in providing the form 20 containing the details of the Board of Directors to us from the Companies Registrar's Office, the transfer of the Director of the Treasury Representative has also affected this. However, the necessary letters to close those bank accounts have now been provided to the People's Bank.	The relevant bank accounts should be closed as per the decisions of the Board of Directors and the funds should be properly settled.

3. Operational Review

3.1 Amalgamation

Audit Observation	Management Comment	Recommendation
(a) Although the Board of Directors has confirmed that the amalgamated company will pass the Solvency Test in accordance with Section 241 (1) (b) of the Companies Act No.07 of 2007 immediately after the amalgamation takes effect, the management of the company had not conducted the Solvency Test as of the date of this	In order to do the Solvency Test of the amalgamated company, consolidated accounts should be prepared as on 01.07.2024. In order to prepare those accounts, the accounts (for three months) of Colombo Commercial Fertilizer Company and Ceylon Fertilizer Company as on 30.06.2024	The Solvency Test should be conducted in accordance with the provisions of the Companies Act.

report. However, Ceylon Fertilizer Company Limited and Colombo Commercial Fertilizer Company Limited had paid Rs.21,161,837 and Rs.43,913,037 respectively from profits after-tax to the General Treasury on 25 March 2025 as dividends.

should prepared and submitted for audit and the audited accounts have been provided to us for correction of accounting errors. Accordingly, adjustments to the accounts provided to us are currently underway and actions will be taken to promptly submit the consolidated final accounts with adjustments for audit and Solvency Test.

3.2 Uneconomic Transaction

Audit Observation	Management Comment	Recommendation
<p>(a) In addition to the ERP system that were upgraded at a cost of Rs.5.1 million and installed in the new company, and Human Resource Management Information System (HIRIS), approval had been given by Board of Directors Resolution No.37 to purchase an Employee Performance Evaluation Module developed by a private institution to further streamline the performance evaluation of the company's employees. It had been contracted to pay Rs.550,000 for the installation and implementation of this performance management system called H2504 and Rs.350,000 per year for annual maintenance for a period of 05 years from 01 January 2025 and, without developing a methodology within the system itself to measure employee performance when the ERP system was upgraded, a separate software had been purchased for the purpose incurring additional cost of Rs.2.3 million. However, although 30 percent of the estimated value, i.e. Rs.165,000 had been paid for the work of creating this employee performance evaluation module, the work had not been completed up to the date of audit.</p>	<p>After the amalgamation of the companies, the Board of Directors has approved the continuation of the existing Human Resources Management Information System of Ceylon Fertilizer Company Limited. Accordingly, the system will be maintained under an annual maintenance charge of Rs.350,000 as per the agreement entered into with Victory Information (PVT) Ltd. Subsequently, the management decided to develop a performance appraisal system that could be implemented through the Human Resources Management Information System, instead of the existing employee performance appraisal system. Accordingly, the said institution has entered into an agreement to pay a one-time payment of Rs.550,000 in three instalment for the installation and improvement of the Performance Management Module. After the system is installed on our company's computer system, 30 percent of the total fee has been paid.</p>	<p>The work on creating the employee performance evaluation module should be completed promptly.</p>

- (b) Although an initial expenditure of Rs.3,722,901 had been incurred in 2018 for 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 dated 27 October 2015 and No.MDE/L/03/W/12 of the Secretary to the Ministry of Mahaweli Development and Environment for the construction of a warehouse for the Colombo Commercial Fertilizer Company, construction has not been carried out to date or any action had not been taken to hand it over to the Mahaweli Authority.
- Although the warehouse mentioned in the audit query was constructed under the government's subsidized fertilizer distribution program using the Hambantota Port with the aim of distributing fertilizer promptly to the Hambantota, Badulla, Monaragala and Ampara districts, with the subsequent amendment of the subsidy policy, there was no need for a warehouse in that area. By now, the relevant land has also been returned to the Mahaweli Authority.
- The land transfer process should be completed promptly.
- (c) Although the financial statements presented by the two companies as of 30 June 2024 showed a loss after tax of Rs.548,567,043, the launch of the new company by amalgamating the companies was held in a grand manner on 11 July 2024 at the Waters Edge Hotel premises in Battaramulla and an expenditure of Rs.36,835,731 had been incurred for this. However, the audit did not observe the new business opportunities that the new company had obtained through the launch of the relevant businesses.
- As per the audit report, although the loss after tax as on 30 June 2024 was Rs.548,567,043, this was due to the payment of compulsory retirement compensation to employees. Although it was stated that Rs.36,835,731 was spent on the event at the Waters Edge Hotel premises for the company's launch, Rs.3,431,912 was spent on the hotel premises and catering, while Rs.13,365,801 was spent on the organization and management of the event by Selacine Media Solutions, bringing the total cost of the event to Rs.16,797,713. All other expenses were incurred for advertising through electronic and print media with the aim of providing wide publicity for the new business name.
- Actions should be taken to minimize uneconomic expenses.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
(a) While the contract for the partitioning of the offices of the Ceylon Fertilizer Company premises was being awarded to a private company at a cost of Rs.3,782,000 and the relevant renovation works were being carried out, 19 new proposals regarding the renovation works were submitted at the Procurement Committee meetings held on 20 June 2025, 21 July 2025 and 01 August 2025. It was decided at the aforementioned meetings to change the initial estimates and assign the same contractor for the installation of office partitions and doors, appoint a new contractor to carry out the same work in other areas, and appoint new contractors for painting, carpeting, wiring and networking. The audit observed that the company had to spend unnecessary costs and time due to decisions taken by management from time to time without formal planning.	When inviting bids for office partitioning works, bids were awarded to bidders based on the specifications prepared on a work basis from the initial stage. Accordingly, in cases where there are revisions in the divisions, contractors have been appointed as a separate task. The tasks outlined in the audit report are different from each other and it is difficult to find contractors who will perform all the tasks outlined. As observed by the committee appointed for the renovation work, separate procurement activities have been carried out as it has been found to be more cost effective to select contractors with better skills for the separate tasks.	Renovation should be made based on pre study.
(b) 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. Later, even though the 2025/2026 financial year budget also 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	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,	Procurement activities should be carried out within specific time frames according to the budget estimate.

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. Management had not paid attention to taking the necessary actions to expedite the purchase of this machine to expand sales in the competitive open market.

human labour and electricity will still be required for the mixing process.

3.4 Management inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Initiation of the procurement process to select a suitable specialist firm for verification of fixed assets, coding, preparation of fixed assets register and identification of surplus fixed assets after the amalgamation of the companies had been approved by the Board of Directors on 21 January 2025 and the process of inviting bids for the same was carried out through a newspaper advertisement on 18 March 2025. Accordingly, bid evaluations had been conducted on 30 June 2025 and 29 July 2025 and a company has been selected only to submit bids. Although a year had passed since the amalgamated of the two companies, action had not been taken to verify the relevant fixed assets and identify the underutilized fixed assets of the company in accordance with paragraph 6.7 of the Operations Manual issued with the Public Enterprises Circular No. 01/2021 dated 16 November 2021 of the Secretary of the Treasury.</p>	<p>The amalgamation of the 2 state fertilizer companies were finalized with effect from 01 July 2024 nevertheless, many aspects of the process still needed to be completed after that date. Furthermore, many activities that required direct contributions from the financial sector have also had to be carried out during the past period. Since there is not enough staff to carry out the verification of more than 8,000 fixed assets while maintaining day-to-day operations, it is more appropriate to select and appoint an independent institution for the purpose according to the procurement methodology and therefore approval has been given to select such an institution by the Board of Directors on 21 January 2025. Accordingly, since the selected KPMG firm later withdrew from the contract, E&Y which is the second most responsive bidder had been selected and currently, verification of fixed assets and other activities are being carried</p>	<p>Verification of the fixed assets of the new company should be carried out promptly.</p>

out jointly with that institution.

- (b) It was observed during the annual stock verification held in March 2025 that the remaining unsold organic fertilizers purchased in the year 2021/2022 under the Eco-Friendly Local Fertilizer Purchase Project are mostly available in the regional warehouses of Ampara, Horowpathana, Madawachchiya, Nochchiyagama, Badulla, Batticaloa, Dehigahalanda, Kondavil, Hingurakgoda and Embilipitiya. As of 08 May 2025, the amount of unsold compost fertilizer remaining is 2,487 MT and its value is Rs.32,835,355. However, the actions to be taken regarding this fertilizer had not been specifically identified as of the date of the audit.
- Discussion had been made most of time regarding this matter in audit and management committee meetings and actions are being taken to provide the organic fertilizer to government institutions based on the recommendations made there and the approval of the Board of Directors.
- Effective actions should be taken regarding the amount of remaining compost fertilizer and idle costs should be minimized.
- (c) Although 1,201 bottles of 500 ml liquid fertilizer worth of Rs.5,095,300 expired as at 20 December 2023 are in the warehouses of the company and which have not been distributed to farmers as of the date of this report, nevertheless, any action had not been taken in this regard
- The distribution of these Nano nitrogen bottles was carried out as per the recommendation of the National Fertilizer Secretariat. Due to lack of recommendation or demand for the quantity of bottles mentioned in the audit inquiry were remained in the warehouse. Letters have been sent to the Secretary of the Ministry of Agriculture asking in to the next steps to be taken regarding these remaining bottles.
- Effective actions should be taken regarding the amount of relevant of liquid fertilizer and idle costs should be minimized.
- (d) Although more than a year has passed since the establishment of the new company, its Divisional Layout has not been prepared in a way that enhances the efficiency and productivity of the operations of the company and internal control activities, and it was observed that the activities of the new company are being carried out separately in different locations within the buildings of the two old companies. However,
- The Ceylon Fertilizer Company where the head office is located has not been properly maintained for over 20 years and as a result, the need to properly maintain and modernize the head office building arose and all departments had to be redesigned to suit the current staff. The finance and sales departments were maintained within the old
- The Division Layout should be planned and fully utilize the assets of the company

definitive and effective decision regarding the necessity to amalgamate the company and systematically house all departments in one building has not yet been taken by the top management.

company building without disrupting operations until the procurement process was completed. Accordingly, the necessary work to gradually relocate the staff to the head office is currently underway and all departments are scheduled to be housed in one building by December. There has been some delay due to carry out all the work without disrupting day-to-day operations.

3.5 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) 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 amalgamated 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.</p>	<p>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 than to the private sector due to 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.</p>	<p>The company must work strategically to achieve its sales goals.</p>

- (b) Although in the budget estimate approved by the Board of Directors of the Company for an 8-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.42,900,000 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. Although an expense of Rs.11,770,210 had been incurred as sales commission by this company, it was observed that the commission was an expense incurred for the sale of tea fertilizer which was carried out in accordance with an agreement entered into with the Small Tea Estates Development Authority.
- 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.
- (c) The website and Facebook page created for the new company had not been updated since July 2024 when the company was founded and in a context where social media is increasingly used for sales promotion, the attention of the top management had not been focused on making the sales division more active by focusing on advertising activities that could be carried out through social media such as the website, Facebook Page and YouTube at minimal cost.
- A state-owned company called Salacine was selected through a tender process to develop a new website for the newly established State Fertilizer company. The new website they created was being updated according to our specifications until June 2025 nevertheless that work also suddenly stopped. Although several rounds of meetings were held and discussions were held with the Salacine Institute on several occasions nevertheless, since it was not successful, discussions were held with the Assistant Director of the
- Sales promotion activities should be carried out via the Internet and sales targets should be achieved.

Technology Division of the Ministry of Agriculture regarding the establishment of the official website of the company and a suitable institution was selected under the institutional procurement method and the relevant specifications were prepared to create a new website and create and maintain a YouTube channel as per the instructions given there and the procurement process has commenced by now. The Facebook page is also currently active.

3.6 Utilization of Resources of Other Organizations

Audit Observation	Management Comment	Recommendation
(a) The land measuring 0.2024 hectares belonging to the land named "Kataragama Kelaya" in the Kandasuridugama Grama Niladhari Division which was obtained by the Ceylon Fertilizer Company Limited in 2011 from the Kataragama Divisional Secretary for the construction of a holiday resort had not been legally taken over by the company or handed back to the Kataragama Divisional Secretary.	The ½ acre land in the Kataragama Kandasuridugama village handed over to the Ceylon Fertilizer Company Limited for the construction of circuit bungalow, the land plot measuring 0.2024 hectares belonging to the land called "Kataragama Kelaya" in the "Kandasuridugama" Grama Niladhari Division of the Kataragama Divisional Secretariat Division has been applied for and obtained from the Kataragama Divisional Secretariat for the construction of circuit bungalow nevertheless, after the Board of Directors decided to suspend the construction of circuit bungalow due to the problems with the road to this piece of land, a written notice has been sent to the Kataragama Divisional Secretary to formally accept the land.	Action should be taken to transfer the relevant land legally.

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| (b) | <p>The land allocated under the Neelabemma Project bearing number LB25-7A measuring 25 acres in the Pahala Puliyankulam Grama Niladhari Division No.638 of the Karuwalagaswewa Divisional Secretariat division in the Puttalam District of the North Western Province has not been legally taken over so far by this company or legally handed back to the Karuwalagaswewa Divisional Secretary by now.</p> | <p>The land bearing number LB25-7A under the Neelabemma Project in the Pahala Puliyankulam Grama Niladhari Division of the Karuwalagaswewa Divisional Secretariat Division of the Puttalam District of the North Western Province was allocated to the Ceylon Fertilizer Company Limited and the Board of Directors has decided that it is not appropriate to develop this land plot since this land plot has not been legally transferred, following this Board of Directors' decision, the Karuwalagaswewa Divisional Secretary has been informed in writing to take back this land and it has informed the company that this land has been taken over.</p> | <p>Action should be taken to transfer the relevant land legally.</p> |
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3.7 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
(a) The approved cadre for the new company was 181 and the actual number of employees was 161. Since 438 people were employed in the two existed companies, action had not been taken regarding the surplus of previously used fixed assets, computers, and related equipment, even though more than a year had passed since the establishment of the new company. As a result, as of the date of this report, those assets remained underutilized and idle, unsecured in various locations, and action had not been taken to confirm their physical existence by verify those assets and those assets had not been utilize for productive purposes.	The second most responsive bidder name called E&Y was selected for the purpose of selecting an independent institution for the purpose according to the procurement procedure as per the approval of the Board of Directors on 21 January 2025 due to there was not enough staff to carry out the verification of fixed assets. Currently, verification of the relevant fixed assets is being carried out in conjunction with that institution, and the surplus vehicles in the possession of the institution have already been disposed under the procurement procedures. Furthermore, fixed assets held by regional warehouses are also safely stored in Polonnaruwa and Hunupitiya warehouses and will	Asset verification should be carried out and assets should be fully utilized.

being prepared for disposal after verification.

3.8 Human Resources Management

Audit Observation	Management Comment	Recommendation
<p>(a) The approved cadre for the new company was 181 and the actual number of employees was 161. It has been observed that there were 20 vacancies and out of that 10 were senior level, 05 were tertiary level, 01 was secondary level and 04 were primary level. However, a recruitment procedure for the new company had not been approved by the date of the audit and although in accordance with Section 1.4 of Chapter II of the Establishments Code and as stated in the above letter, other designations other than the approved designations should not be used without the approval of the Director General and the Managing Director General of the Establishments. It was observed that even as of the date of the audit, the employees of the new company were still using the designations used in the old companies in violation of the provisions of the Establishments Code and the Department of Management Services.</p>	<p>A cadre of 181 employees has been approved for the new company by letter No. DMS/1877 VOL – L dated 31 December 2024 of the Director General of the Department of Management Services. As per the instructions in the above letter the recruitment procedure for the posts approved by our company should have been prepared and approved by the Department of Management Services and after that the appointments to the approved posts should have been made in a formal manner and therefore, the recruitment and promotion procedure prepared for those posts has been forwarded to the Department of Management Services with the recommendations of the Secretary to the Line Ministry on 30 April 2025 for submission. However, the approval of the Department of Management Services has not been received so far. After receiving approval for the recruitment process, employees can be absorbed into the posts relevant to the new cadre.</p>	<p>Action should be taken to absorb employees for the posts related to the composition of the new cadre in accordance with the recruitment procedure approved by the Department of Management Services.</p>
<p>(b) Although in accordance with Section 35 of chapter XII of the Establishment Code, short leave may be approved twice a month not exceeding 1 ½ hours at a time, the employees of the company had taken 06 short leaves per month each of ½ hours at a time. It</p>	<p>At that time, the head office of the Ceylon Fertilizer Company Limited was located at Chatham Street, Colombo 01 and that office was established in the office premises located at the Hunupitiya Central Warehouse</p>	<p>Actions should be taken in accordance with the provisions of the Establishments Code or the Institutional Procedure Code</p>

was observed that the provisions for taking such short leave have been included in the staff procedures prepared by the company in accordance with the Board of Directors' Memorandum dated 25 February 2025. However, the approval of the Department of Public Enterprises for the said code of procedures has not yet been received and that such short leave has been taken by employees since previous years without any legal provisions.

Complex in 2002. Accordingly, the majority of employees working at the head office had transportation facilities from Colombo to Hunupitiya by train. Also, to cover the lateness in reporting to work due to limited transport facilities from Colombo to Hunupitiya and constant delays, two short leaves of 1½ hours have been provided as ½ hour or 1 hour as per the necessity. Similarly, the system of taking short leave as a non-financial privilege is still in place to motivate employees on the basis of not depriving the privileges partaken for a long time for the employees assigned to the new company formed by amalgamating the two state fertilizer companies and short leave exceeding the maximum limit of 03 hours per month had not been granted. Furthermore, the said procedure has been included in the Company's Corporate Procedures Code and it has been forwarded to the Department of Public Enterprises for approval on 2025.04.07 with the recommendations of the Secretary to the Line Ministry for approval nevertheless, approval has not been granted so far. And also, these provisions have also been included in the Staff Procedures of C/S Lanka Fertilizer Company, which were in force from 2024.11.01.

approved by the Department of Public Enterprises.

4. Accountability and good governance

4.1 Corporate Plan

Audit Observation

Management Comment

Recommendation

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| (a) | <p>According to the Corporate Governance Guideline for State-owned Enterprises issued by the Secretary of the Ministry of Finance through Public Enterprise Circular 01/2021, the company's strategic plan prepared for a period of 05 years including the company's annual action plan and annual budget should be submitted by the Secretary to the Treasury or the Director General of National Budget by the Secretary of the ministry concerned. However written evidence was not submitted to the audit that a strategic plan prepared in relation to the newly amalgamated company established as the sole state-owned fertilizer company was submitted as above. 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.</p> | <p>The contractor was selected under the procurement process to prepare the strategic plan for the amalgamated company for 05 years and the strategic plan prepared by him was discussed in the committee formed to amalgamated the companies with the participation of an official of the ministry of finance and was forwarded to the Treasury for further study. The relevant contractor was instructed to correct the deficiencies observed in the detailed plan during that discussion and a percentage of the amount agreed upon was given.</p> | <p>Corporate strategic plan for the new company should be formally prepared and submitted.</p> |
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4.2 Delay in tabling of Annual Reports in Parliament

	Audit Observation	Management Comment	Recommendation
(a)	<p>Although the Annual Report including the Financial Statements and Audit Report of the company should be tabled in Parliament within 05 months after the end of the accounting year as per the Paragraph No.6.6 of the Operational Manual issued with Public Enterprise Circular No.01/2021 dated 16 November 2021 of the Secretary of the Treasury, the Annual Report had not been tabled in Parliament even though a period of 08 months has passed since the end of the financial year 2024/2025.</p>	<p>A new software system was introduced for the amalgamated company and there was some delay in entering data into the system. The preparation of accounts is currently in the final stage and action will be taken to complete the work immediately and submitted it for the audit. After that, the annual report will be prepared immediately and submitted to the ministry for approval.</p>	<p>The Annual Report should be prepared within the prescribed period and tabled in Parliament.</p>

