

## State Timber Corporation - 2019

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### 1.1 Qualified Opinion

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The audit of the financial statements of the State Timber Corporation for the year ended 31 December 2019 comprising the statement of financial position 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 a summary of significant accounting policies, 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 reported 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 financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 1.2 Basis for Qualified Opinion

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My opinion is qualified based on 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

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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 determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 Sub-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 Auditor's Responsibility in connection with Audit of Financial Statements**

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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, 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 Financial Statements**  
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**1.5.1 Internal Control over the Preparation of Financial Statements**  
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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

**1.5.2 Non-compliance with Sri Lanka Accounting Standards**  
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<b>Non-compliance with Reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Contrary to Section 32 of Sri Lanka Accounting Standard 01, a debit balance totalling Rs. 175,064,509 had been set off and shown in 03 accounts such as Transactors Advance Account, Cash Sale Advance Account and Cash Sale Control Account indicated under other creditors. As such, the creditors balance indicated in the financial statements had been understated by the same amount.	A Cash Sale Advance Account had been opened in the year 2016 and receipts of advances had been brought to account. However, balances of advances unsettled in preceding years had not been included in the new account. As such, in the settlement of advances mentioned in invoices of preceding years after the year 2016, debit notes have been	Action should be taken in terms of Sri Lanka Accounting Standards.

included in the Cash Sale Advance Account.

- (b) According to Section 61 of Sri Lanka Accounting Standard 16, the depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation method shall be changed to reflect the changed pattern. Action had not been taken to account such a change as a change in an accounting estimate in accordance with Sri Lanka Accounting Standard 08. Policies and percentages of depreciation of assets will be determined by the Corporation in compliance with Accounting Standards by considering matters such as opinion of experts and useful life of the asset. Necessary steps have been taken to revalue all assets owned by the Corporation in the year 2019 according to Assets Management Circular No.2018/04 issued on 31 December 2018 by the Secretary to the Treasury and Non-financial Assets Valuation Guidelines issued on 31 December 2018 by the Comptroller General's Office. It is expected to take action to change the depreciation method after completing the said function. -Do-
- (c) According to Section 79 of Sri Lanka Accounting Standard 16, the following information relevant to users' needs had not been disclosed in the financial statements.
- (i) The carrying amount of temporarily idle property, plant and equipment. Necessary steps have been taken to value all assets owned by the Corporation in the year 2019 according to Assets Management Circular No.2018/04 issued on 31 December 2018 by the Secretary to the Treasury and Non-financial Assets Valuation Guidelines issued on 31 December 2018 by the Comptroller General's Office. It is informed that after completing the said function, necessary measures will be taken in future to dispose of assets temporarily idle or to revalue if those assets can be reused after repairing. -Do -

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| (ii)  | The carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with Sri Lanka Accounting Standard 5. | Assets to be disposed of during the year should be identified and disposed of during the same year. Assets so disposed of have been disclosed under Note No.08 on property, plant, and equipment.  | -Do -  |
| (iii) | When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.                             | The carrying amount of fully depreciated property, plant and equipment owned by the Corporation has been disclosed by Note No.08. Necessary steps have been taken to value all assets owned by the Corporation in the year 2019 according to Assets Management Circular No.2018/04 issued on 31 December 2018 by the Secretary to the Treasury and Non-financial Assets Valuation Guidelines issued on 31 December 2018 by the Comptroller General's Office. Accordingly, it is informed that action will be taken in future to revalue these assets and disclose the fair value in the financial statements when the fair value is materially different from the carrying amount. | - Do - |

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Corporation had spent a sum of Rs. 2,443,620 for constructing offices for the Ecosystem Conservation and Management Project in the year under review and the Project had granted an advance of Rs. 2,633,032 in the year 2018 for the said purpose. The said transaction had been shown in accounts of the Corporation separately as balances receivable and payable without being accounted	The sum of Rs. 2,633,032 received from the ESCAM Project had been indicated in the financial statements of the year 2019 as the amount deposited by debtors. The said indicated value has been already corrected and transferred to the Account of the ESCAM Project. Moreover, action has been taken at present to correct the balance of the account of the	Action should be taken to record data correctly in accounts.

correctly. Further, the balance receivable from the Ecosystem Conservation and Management Project in the year under review had been indicated as Rs. 5,671,845. However, according to the financial statements of the Project, the amount payable to the Corporation had been Rs.5,028,177, thus observing a difference of Rs. 643,668.

ESCAM Project. The present value of Rs.5,671,845 should be Rs. 4,343,153 as the new balance of the ESCAM Project as at 31 December 2019.

(b) The total of building rentals, electricity bills and water bills recoverable from the ESCAM Project had been understated by Rs. 552,291 and Rs. 38,608 for the years 2018 and 2019 respectively. The Value Added Tax and Nation Building Tax of Rs. 575,198 recovered to the Corporation from the Project in the year 2019 had been indicated as revenue of the Corporation.

Action has been taken to correct the account of the ESCAM Project by identifying all deficiencies occurred in accounting and correcting them.

Action should be taken to recover moneys recoverable correctly and speedily.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Even though a sum of Rs. 11,873,954 recoverable from a private company had been shown as receivables over a period of 36 years, it could not be recovered up to now. Moreover, a Cabinet Memorandum had been presented to the then Secretary of the Ministry of Environment on 06 September 2012 to write off the said amount. Nevertheless, no response had been received up to now. Further, a sum of Rs. 1,687,042 had been indicated as a balance receivable for a period of 04 years and no amount whatsoever had been recovered during the year under review. A sum of Rs. 108,670 had been recovered in the year 2020.	Even though the Board of Directors' Paper had been presented at several times to the Board of Directors previously to write off the said sum of Rs. 11,873,954, it has been informed that the approval of the General Treasury should be obtained therefor. Even though letters were forwarded to the General Treasury, it is difficult to take action thereon as this institution is presently inoperative in Sri Lanka. However, it is expected to point out matters to the Board of Directors in this connection.  The sum of Rs. 1,687,042 recoverable from a private institution (GMIC) is an unpaid amount for rejected railway sleepers and out of that, a sum of Rs. 108,669 has been recovered during	In case of failure to recover the said money, necessary action should be taken in that connection.

this year. The Deputy General Manager (Operations) has informed that there is a possibility of recovering the said money.

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| (b) | Even though the Corporation is unable to sell timber and furniture on credit basis at its discretion, contrary to that, timber and furniture valued at Rs. 426,954 had been provided to the then Chairman 06 years ago. The Corporation had not taken action to recover the said value even up to now.                                   | Legal action is being taken to recover the sum of Rs. 426,954 from the then Chairman, Mr. S. Amarasinghe, out of the sum of Rs. 777,103 recoverable from private transactors.   | Action should be taken in compliance with policies of the Corporation and legal action should be taken to recover the loan balances. |
| (c) | Even though the Department of Forest Conservation had paid rentals for use of buildings up to the year 2014, a sum of Rs. 39,600,000 had been indicated as rentals receivable due to unavailability of an agreement from the year 2014 to the year 2019, and failure to pay rentals based on other matters without being agreed thereto. | The Department of Forest Conservation has continuously paid rentals for buildings for 07 years prior to the year 2014 based on the valuation report of the Government Valuer. They have rejected the payment of rentals by stating that there is no written agreement to pay rentals since the year 2014. Even though our Legal Division has drafted an agreement and submitted to them, no concurrence has been made in that connection up to now. The Board of Directors has been pointed out in this connection and the Director General of Forest Conservation who represents the Board of Directors has stated that they will pay the outstanding rentals. As this building is owned by the State Timber Corporation, the said building rental has been brought to account as a balance receivable continuously. | Rentals receivable should be recovered by presenting written evidence required to confirm the legality.                              |

**1.6.2 Payables**

Audit Observation	Comments of the Management	Recommendation
According to the financial statements, the equity to be paid to the Department of Forest Conservation as at the end of the year under review amounted to Rs. 324,433,735. However, according to the information of the Department of	Balances for which the Department of Forest Conservation and the Corporation had not agreed in paying the equity during the period from the year 2011 to the year 2019 had been saved in each year. Discussions are still	Transactions should be brought to account accurately through reconciliation statements of

Forest Conservation, it had been Rs. 52,645,490, thus observing a difference of Rs. 271,788,245.

being held for reaching a concurrence in that connection and please consider that action is taken to eliminate this balance from accounts or to pay it after the discussion. Moreover, allocations for equity payable on accrued basis for all timber obtained from the Department of Forest Conservation, have been made for the year 2019.

accounts through holding discussions by two institutions.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 104	According to stock verification reports of the Dela Depot, shortages of 07 items of stocks of timber logs valued at Rs. 348,597, were observed. Necessary action had not been taken in terms of Financial Regulations.	It is kindly informed that the loss will be recovered from relevant parties after informing by the Internal Audit Unit.	Proper estimates should be maintained with regard to the stock control.
(ii) Financial Regulation 571(2)	Action in terms of Financial Regulations had not been taken on Tender Deposits, Security Deposits, Retention Deposits and Gang Nail Deposits older than 02 years valued at Rs. 1,359,260, Rs.5,712,626, Rs.3,044,410, and Rs. 196,570 respectively.	Even though it has been informed by letters, relevant parties have not presented themselves.	Action should be taken in terms of Financial Regulations.
(b) Circular No. 03/2018 of 18 July 2018 of the Ministry of Finance Section 11	Contrary to circular instructions, two consultants and a driver had been recruited only with the approval of the Board of Directors for the assistance of the Chairman of	These recruitments have been made on daily paid basis with the approval of the Board of Directors. Even though the approval therefor has	Transactions and administrative activities should be carried out legally.

the Corporation and an allowance of Rs. 769,500 had been paid to said consultants at a rate of Rs.2,850 per day for 270 days during the period from 12 February to 03 September 2019.

been sought from General Treasury, replies therefor have not been received up to now. It is informed that obtaining service on daily paid basis had been discontinued due to resignation of the Chairman.

## **2. Financial Review**

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### **2.1 Financial Results**

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The operating result of the year under review had been a profit of Rs.512,947,283 as compared with the corresponding profit of Rs.672,432,854 for the preceding year, thus indicating a deterioration of Rs.159,485,571 in the financial result. The increase in the cost of sales by 13 per cent as compared with the preceding year and the decrease in the financial income by 25 per cent and increase in the financial expenditure by Rs.227 million representing 100 per cent as compared with the preceding year, had been the main reason for the above deterioration.

The Corporation had not taken action to achieve objectives such as agricultural products and import of cane out of its objectives and manufacture and marketing of by-products from timber had not been carried out as expected. Moreover, exportation of railway sleepers as well had not been carried out in the year under review. Even though the exportation of timber related finished and semi-finished products is one of the objectives of the Corporation, action had not been taken by the Corporation to achieve the said objective.

### **2.2 Trend Analysis of Major Income and Expenditure Items**

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The profit before tax of the Corporation has decreased by Rs. 109,485,571 as compared with the preceding year, thus indicating a deterioration of 19 per cent as a percentage. Even though the trade income had increased by Rs. 213,160,673 representing 5.2 per cent, it was observed at the audit test check that the increase in the cost of sales by 13 per cent had been the main reason for the above deterioration.

### **2.3 Ratio Analysis**

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In taking into consideration the liquidity ratio of the year under review, the current assets ratio and the quick assets ratio are taking a value as high as 1 :4.8 and 1 :3.02. As such, the financial position of the Corporation is optimum. However, the credit turnover ratio had decreased from 1.00 up to 0.77 by 0.23 during the period from the year 2018 to the year 2019 and the period for collecting loans had increased from 362 days to 474 days. Accordingly, it was observed at the audit test check that the credit management of the cash flow is at a weak level due to increase in the period of collecting loans.

### 3. Operating Review

#### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>In supplying 7,840 Teak plants to the Corporation, provided by the Department of Forest Conservation, 69 plants (358,890 dm<sup>3</sup>) had been misplaced at the Halmillewa Site 03/006 which was operated under the Minneriya Divisional Secretariat in the year 2015, thus sustaining a loss of Rs.2,994,536 by the Corporation.</p>	<p>A formal disciplinary inquiry had been conducted in the year 2018 and the order of the Disciplinary Authority is that the accused officers should be warned. Subsequently, accused officers have been informed to pay the loss.</p> <p>Appeals thereon lodged by accused officers have been rejected by the Board of Directors and accused officers have been informed to pay the loss according to instructions given.</p> <p>As requests had been continuously made without paying the loss, the disciplinary authority had given instructions to forward this matter to the Board of Directors for further activities before commencing legal proceedings. Accordingly, appeals have been again lodged to the Board of Directors.</p> <p>According to instructions given therein, if a person is found guilty through the formal disciplinary inquiry, it was informed to hold a formal disciplinary inquiry again on the concurrence of recovery of charges for disciplinary inquiry.</p>	<p>Administrative activities should be maintained properly and efficiently.</p>

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) The Corporation had not taken action to manufacture furniture to the value adequate for settling the balance of advances amounting to Rs.13,779,350 granted to 06 contractors by the Boossa Furniture Complex from the year 2011 to the year under review. Further, in making advance payments for contracts, out of the contractual amount, advances ranging from 54.4 per cent to 80.2 per cent had been granted. This had been done contrary to Guideline 5.4.4 of the Procurement Guidelines.</p>	<p>External carpenters have been deployed in the manufacture of furniture on contract basis at the Boossa Unit. Advances are paid to them considering works performed by them. According to Guideline 5.4.4 of the Procurement Guidelines, the advance is defined as mobilization advances. According to the part of works performed by them, a certain percentage is paid as advances. Accordingly, a sum of Rs. 11,975,500 had been paid as advances and out of that, the</p>	<p>Action should be taken settle advances granted or to manufacture furniture relating thereto.</p>

remaining balance was Rs. 7,579,500. Furniture have been manufactured in a manner of covering the advance paid and it is further informed that there is a possibility of manufacturing the furniture by using remaining amount.

- (b) Out of manufacturing activities of the Boossa Furniture Complex, 88 per cent had been carried out by external contractors on contract basis while only 12 per cent by employees of the Corporation during the period from January to 17 December 2019. A sum of Rs. 10,855,909 had been paid to employees of the Furniture Complex as salaries and allowances during the said period. The contribution of employees of the Corporation towards the manufacture of furniture was at a minimum level and expenses including their salaries and allowances are added to the cost of production. As such, it was observed that in pricing the furniture of Corporation, a high price has to be determined.
- Only 08 carpenters of the Corporation serve in the Boossa Unit. Most of them are not expert carpenters and they do not provide an efficient service. Further, they work only in office hours and do not perform overtime work. As such, their working hours are about 07 hours per day.
- Employees on contract basis involve in manufacturing activities for a period of 12-16 hours. All of them are expert carpenters. Further, employees of the Corporation involve in manufacture of samples and orders of furniture such as items 1, 2 placed by buyers and more time is taken to manufacture those furniture. As the employees of the Corporation engage in manufacturing activities, the fee charged by contractors for manufactures has been controlled. Moreover, when they ask for more money, price has been controlled as the employees of the Corporation are involved in the said manufacturing activities.
- Operating and administrative activities of the complex should be maintained in a manner beneficial to the Corporation.
- (c) Out of manufacturing orders received to the Boossa Timber Manufactory, 93 per cent had been received from Government institutions while a very low percentage as 7 per cent from the private sector. Moreover, necessary steps had not been taken to increase the demand of the private sector.
- When checking the order register of the Boossa Showroom, 53 and 47 per cent had been received from the Government and private sector respectively during the year. Accordingly, it seems that the Government institutions as well as the private sector have a tendency to purchase furniture from the State Timber Corporation.
- Operating and administrative activities of the complex should be maintained in a manner of beneficial to the Corporation.

- (d) Goods valued at Rs. 1,690,183 had been recommended to sell at a price of Rs. 707,710 by offering a discount less than 50 per cent at the sale of furniture conducted by the Boossa Showroom. Accordingly, the loss sustained by the Corporation had been Rs. 982,473.
- A report on goods with defects before the year 2016 had been requested by the Letter No. STC/M/2/FOR B.S. dated 21 May 2019 of the Deputy General Manager (Marketing) and action had been taken to send a report on goods with defects. Subsequently, a committee had been appointed to check those goods and to determine the price according to defects of goods. All listed goods have been presented to the committee and a price was determined by the Committee in relation to the defect. The said Committee report has been presented to the Price Committee of the Head Office and the Price Committee had approved the rates of those goods with defects and forwarded for marketing purpose. Accordingly, those goods were sold in the months of November and December 2019. In case of stocks with defects occurred due to environmental conditions at the depot, there is no possibility of selling those furniture even at the same price.
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### 3.3 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A stock of furniture valued at Rs. 14,901,048 received from the manufactory to the depot from the year 2012 to the 2019, had been retained in the depot for a long period, thus becoming unsuitable for selling.	Even though furniture were manufactured as stocks, those will be polished and issued according to orders received from the showroom. (As all stocks are polished at the same time, they will be discoloured)	Necessary steps should be timely taken for selling.
	Ex. There were about 80 (Dining) chairs STCB/310 at the time of auditing and only 12 chairs had remained at present. Even though there were 18 dressing tables STCB/110 A in the stock at the time of auditing, no dressing table	

whatsoever had been remained at present. Furniture are polished according to orders received from showrooms. For the said purpose, Kumbuk Sofas (Settee) STCB/145A are out of stock at present.

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| (b) | Despite having furniture valued at Rs. 10,512,116 in the depot, action had been taken to manufacture and sell of those items of furniture by entering into new agreements instead of converting them into items fit for sale.   | Dearth of employees of the Corporation and contractors adequate for polishing and finishing the furniture which were finished up to the level of assembling of parts, is the main reason therefor. Disagreement of contractors for polishing furniture under rates paid for the said purpose, is another reason. As such, furniture which were not polished properly has to be retained in depots for a long period. However, it is kindly informed that action will be taken to polish and sell of furniture according to orders received from the showroom. | Operating and administrative activities of the complex should be maintained properly. |
| (c) | Furniture manufactured had been piled here and there in the depot in an unprotected manner. As such, selection of furniture was impossible and those had been subjected to damages too.   | Not replied.  | Administrative activities of depots should be carried out properly.                   |
| (d) | Before taking over of furniture manufactured by external contractors and employees of the Corporation to depots, the Quality Controller of the showroom should examine whether the said furniture had been finished up to the Standard. Nevertheless, no evidence was made available to prove it. It was observed at the audit test check that there were defects in certain furniture. | Officers have been appointed to the posts of Assistant Manager (Quality) and Deputy Manager (Quality) in furniture manufactories, to check the quality of furniture manufactured by external contractors and employees of the Corporation. They affix the quality assurance sticker on goods and send those goods to showrooms. When certain goods are kept at stores, space is occupied and those may be scraped and certain items may be discoloured. In such instances, those goods will be repaired again and sold.                                       | Operating and administrative activities of the complex should be maintained properly. |

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| <p>(d) Ebony logs of 225,994 dm valued at Rs.47 million had been piled on the premises of the Boossa Timber Depot for a period of 12 years from the year 2007 in an unprotected manner and it was observed that those timber logs are decaying, being exposed to various environmental conditions.</p> | <p>There are about 225 m<sup>3</sup> of Ebony timber in the Boossa Depot at present. According to the instructions of the General Manager, action has been taken to cut timber into logs according to defects of timber and usable logs are taken to the stock while logs with defects are graded and sold by auction. Moreover, action has been taken to stack timber logs taken to the stock and to cover with polythene. A guard room has been constructed in the log yard for the safety of Ebony logs and other logs and a security officer has been deployed in the service at the log yard for 24 hours. Moreover, according to instructions of the Deputy General Manager (Production and Technology), action is being taken to erect a wire fence for the low height part of the wall of the B yard.</p> | <p>Administrative activities of depots should be carried out properly.</p> |
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### 3.4 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>(a) A significant variance was observed between the total cost estimate prepared for renovation and modification of the Sampathpaya building by the Corporation and the quotation of the institution by which the procurement was awarded and it was a high price increased by 25.44 per cent. The price of bills submitted from 26 July 2019 had been increased by 15 per cent, thus observing an increase in the contractual value as well. Accordingly, it was observed that estimating and evaluating the procurement, has not been properly carried out.</p>	<p>As the contractor had submitted a quotation less than the price estimate and the said institutions had informed that there is a possibility of executing the said contract on the quotation submitted by him, the said contract was awarded to him. The said contract could not be completed during the due period due to a practical reason. As such, the contractors had requested a further increase of 15 per cent on price variations at the market. However, it is certified that the said increase in the price had not been granted.</p>	<p>Action should be taken in terms of procurement procedures.</p>

- (b) An agreement had been entered into for the construction of employees' rest room at Kaldemulla and in terms of the agreement, it should be completed on 28 May 2017. Nevertheless, it had not been so done. In the settlement of the first bill, a sum of Rs.588,489 had been paid for the value of Rs.536,274. As such, a sum of Rs.52,215 had been over paid and the contractor had abandoned the contract halfway. Action had not been taken regarding the failure in taking action in terms of the agreement by the contractor.
- It was delayed in completing this contract due to taking measures to rectify deficiencies of the contract and making changes requested by the institution.
- Action should be taken to maintain the contract administration in a proper manner.