

## State Timber Corporation - 2020

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of financial statements of the State Timber Corporation for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year 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 2020, 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 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

#### **1.4 Audit Scope (Responsibility of Auditor regarding the 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, 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 Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation ;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standards

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although assets and liabilities cannot be offset as per Section 32 of the Sri Lanka Accounting Standards No. 01, on the contrary to that, Rs.1,143,231,084 of the stumpage payable to the Forest Conservation Department, had been offset to Rs.53,384,642 of receivable for mulching the old teak roots and new teak roots in relation to all forest plantations that were completely fallen down during the year under review,	In accordance with paragraph 33 of Sri Lanka Accounting Standards No. 01, we present all assets, liabilities, income and expenses separately and, adjusting the value to be received against the value payable in respect of a single expenditure header, does not have effect to the core of the transaction or for the understanding of the users of financial statements and, the accounting impact that occurred from that was accurately accounted for. Each year the Forest Department calculates the stumpage payable to them and gives it to us as follows. Accordingly, the difference of deducting all costs incurred in transporting the trees with roots to the depot and profit margin from our normal sales value is received by us as the	Actions should be taken to prepare correct accounts according to the Standard.

stumpage that is payable by the Department of Forest Conservation. However, as the expense of removing and mulching roots that should be deducted when calculating stumpage by Department of Forest Conservation in year 2020 has not been calculated yet, that stumpage has been sent to us by stating that above expenses would be informed later. Accordingly, as all the expenses that contribute to the production should be identified by us, it has been accounted adjusting accurately to the stumpage value by preparing cost estimate for that. It is informed that we are informed stumpage by deducting these expenses by estimating earlier in previous years.

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| <p>(b) According to the Paragraph 42(b) of Sri Lanka Accounting Standard 08, when making corrections for previous years' errors, though it should be restated the opening balances of assets, liabilities and equity accounts in previous year, in contrary to that, actions had not been done as per the Standard in relation to Rs.12,585,673 of fixed deposit interest receivable income related to year 2019, Rs.173,514 of overstated accrued expenses and Rs.125,971 of understated accrued expenses.</p> | <p>Changes in accounting policies, accounting estimates and errors have been stated in Sri Lanka Accounting Standard 08. Accordingly, Sri Lanka Accounting Standard 08 stated that there is a possibility of adjusting previous year errors into the year under review at immaterial instances according to materiality concept. Thus, as interest income on fixed deposits that adjusted as finance income in the year under review is less percentage from the profit before tax, it can be adjusted to the year under review according to Sri Lanka Accounting Standard 08.</p> | <p>Actions should be taken to prepare accounts according to the Standard.</p> |
| <p>(c) As stated in Paragraph 28 in Sri Lanka Accounting Standard 37, though it should be disclosed in relation to the contingent liabilities in the financial statements, it has not been disclosed in the financial statements regarding 05 legal</p>   | <p>Contingent liabilities and contingent assets were disclosed in the financial statements under Sri Lanka Accounting Standard 37 and actions will be taken to disclose contingent liabilities and contingent assets that mentioned by you.</p>  | <p>Accounts should be prepared in accordance with Accounting Standards.</p>   |

cases against the Corporation requesting compensation of Rs.5,328,908. Further, it has not been disclosed in the financial statements in relation to the contingent assets of Rs.294,000 according to paragraph 34 of Sri Lanka Accounting Standard 37.

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| <p>(d) According to Paragraph 51 Of Standard 16, residual value and useful life time of the asset should be reviewed at least every financial year. However, as it was failed to review the useful life time annually, property, plant and equipment amounted to Rs.775,293,479 that were fully depreciated and in use had not been revalued.</p>        | <p>Out of the assets owned to Corporation, vehicles had been revalued in year 2019 and although it was requested continuously to the Government Valuation Department for the revaluation of lands and buildings, required actions had not been taken by them yet. Although required actions had been taken in year 2020 for revaluation of machineries and equipment, it could not be done due to Covid-19 pandemic. Actions will be taken to account the revaluation of these assets in year 2020.</p> | <p>Accounts should be prepared by evaluating and updating assets according to the Sri Lanka Accounting Standards.</p> |
| <p>(e) Although lands of Rs.59,059,164 that acquired to the Corporation since 1968 was reported under historical cost in Property, Plant and Equipment, actions had not been taken to revalue these lands that prevailed more than 50 years to the present market value.</p>   | <p>Although it was requested continuously to the Government Valuation Department for revaluation of lands belongs to the Corporation, required actions had not been taken by them yet for that.</p>   | <p>Action should be taken to account by valuing and updating land values.</p>   |
| <p>(f) According to the Sri Lanka Accounting Standard 02, inventory should be valued for the lower of cost or net realizable value and when the net realizable value is lesser than cost of closing inventory, that difference should be written off from profit as an expense. In contrary to the Standard, for the trade inventory, a provision of</p> | <p>As a policy of the State Timber Corporation, a provision of 15 per cent for all trade inventory (excluding furniture) as at 31 December in every financial year has been made for the inventory depletion. According to the Annual Forest Management Plan of the Department of Forest Conservation, the final stock of the year is determined according to the amount of afforestation released to the State Timber Corporation. Annual inventory</p>  | <p>Inventory adjustments should be made to financial statements in accordance with the Standard.</p>                  |

15 per cent that is Rs.244,674,912 for the depletion of inventory by deducting from closing inventory had been stated in the financial statements. As over provision of Rs.44,165,123 and under provision of Rs.54,329,480 were adjusted to the profit, the profit had been less accounted by net value of Rs.10,164,357.

depletion is calculated separately for all units and over-provision and under-provision of inventories are shown in the financial statements separately. As the profits and losses of all the regionals of the Corporation are calculated separately, it is not possible to deduct the over-provision of inventory from the expenses and those expenses are stated under the sales and distribution expenses and, over-provision are accounted for under operating income. In year 2020, over-provision of Rs. 44,165,123 and under-provision of Rs. 54,329,480 were stated in the financial statements. Compared to 2019, trade debtors in 2020 have decreased by 443 million. Rs.609 million had been recovered from the long term loans due from the Sri Lanka Railway Department. Annual provision for doubtful debts is calculated separately for all units and, over provision and under provision of doubtful debts have been shown separately in the financial statements. As the profits and losses of the regionals of the Corporation is calculated separately, it is not possible to deduct the over provision of doubtful debts from the expenses and those expenses were stated under sales and distribution expenses and over provision had been accounted under operational income. In year 2020, the over provision of doubtful debts of Rs.99,816,708 and under provision of doubtful debts of Rs.728,740 had been stated in the financial statements.

**1.5.2 Accounting Deficiencies**

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Following observations were made.

<b>Audit observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Although the total lease payment of Rs.8,564,544 should be stated in the cash flow statement as	Actions will be taken for the corrections for financial lease for the vehicles purchased during the year under review	Actions should be taken to prepare and present the financial

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| <p>cash outflow, it was stated as cash inflow of Rs.12,150,297.</p>  | <p>that stated in cash flow statement as cash inflow and the cash flow for the three vehicles obtained under the operational lease as cash outflow. As a result, it has not been affected for the decrease in net value of cash and cash equivalents.</p>                    | <p>statements by adjusting information accurately.</p>  |
| <p>(b) Although there was no any cash inflow or outflow from the transfers of Rs.13,570,520 to the Staff Loan Circular Fund from the retained earnings, it was stated in the Cash Flow Statement as cash inflow.</p>   | <p>There was no impact to the decrease in net value of cash and cash equivalents as stated the staff loan circular fund as cash outflow under operating activities and as inflow under investment activities. It will be rectified in future.</p>                            | <p>Actions should be taken to prepare and present the financial statements by adjusting information accurately.</p> |
| <p>(c) Although gratuity payment of Rs.71,813,395 should be stated as cash outflow, the difference between opening and closing balances of Rs.42,882,621 had been stated in the financial statements as cash inflow.</p>   | <p>Actions will be taken to rectify of stating the difference of provision for gratuity in the year under review and previous year as cash inflow under operational activities. So, it had not been affected for the decrease in net value of cash and cash equivalents.</p> | <p>Actions should be taken to prepare and present the financial statements by adjusting information accurately.</p> |
| <p>(d) Staff loan amounted to Rs.151,863,773 had been given by the Corporation for the year under review and, Rs.122,712,917 of staff loan had been recovered. That cash inflow and out flow had not been adjusted in the Cash Flow Statement under investment activities.</p> | <p>Staff loan giving and recovering in the year under review had been adjusted to the cash flow statement under operating activities. It will be stated under investment activities in future.</p>   | <p>Actions should be taken to make accurate financial statements and submit financial statements.</p>               |
| <p>(e) Though other interest income of Rs.17,855,947 was a cash inflow under investment activities, it has been stated as a cash outflow under investment activities.</p>  | <p>Other interest income had been adjusted under operating income as a cash inflow in cash flow statement. It has been adjusted under investment activities as it was included in the non-operating income.</p>  | <p>Actions should be taken to make accurate financial statements and submit financial statements.</p>               |

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| (f) | Land reclamation cost of Rs.509,250 had been accounted as land improvement without accounting as lands .   | Land reclamation cost of Rs.509,250 had been accounted correctly under land improvement.   | Actions should be taken to make accurate financial statements and submit financial statements.   |
| (g) | Though the interest income included in the taxable income was Rs.174,077,703, income tax in the year under review had been over stated by Rs.3,020,561 as it was calculated income tax on the previous year interest income of Rs.12,585,673.  | Sri Lanka Accounting Standards No. 08 deals with accounting policies, changes in accounting estimates and errors. Accordingly, the standard states that it is possible to make adjustments to the year under review the previous year errors when it is immaterial according to materiality concept. Accordingly, the interest income for the previous year has been adjusted for the year under review and relevant income tax is calculated as income tax for the year under review. This is not an over calculation.  | Actions should be taken to make accurate financial statements and submit financial statements.   |
| (h) | Though the rent income included in the taxable income was Rs.11,253,478, out of that, Rs.10,641,150 was a rent income that does not have definite confirmation to be received from Department of Forest Conservation. Thus, income tax for the year had been over stated by Rs.2,553,876 due to calculation of income tax on that. | At the first Progress Review Meeting 2021, we discussed the rent arrears and informed to the Forest Department that the rent arrears should be allocated from the annual budget and paid to the State Timber Corporation.<br>As the total maintenance cost of the head office building has to be borne by the Corporation, in order to cover part of this cost, a portion of the cost has been charged by the Forest Department at the nominal value as the rent and that nominal value is lesser than market value. The use of a common meter to supply electricity and water to the building deviates from the criteria for identifying this property as an investment property. According to Chapter 16 (B) of Sri Lanka Accounting Standards No. 40, it is not possible to accurately estimate the cost or fair value of the above rental property. The rental value also charges only a nominal value. Due to these reasons, the above building | There is no agreement on building rent. Since there is no contractual obligation yet, action should be taken to calculate and account the income accurately. |



cannot be identified as an investment property.

Accordingly, the calculation of income tax on building rent due from the Department of Forest Conservation, which includes in the taxable income, is correct and an over-calculation has not been done.

- (i) Although the gratuity expenditure for the year included in the disallowable expenditure in calculating the taxable income was Rs.68,605,260, as the gratuity expenditure for the year was Rs.85,897,251 in calculating the profit before tax included in the income statement, the gratuity of Rs. 17,291,991 had been less adjusted for disallowable expenses in the year. Although the gratuity payment that included in the allowable expenses was Rs.58,921,069, as the gratuity payment according to the financial statements was Rs.71,813,398, it had been adjusted less of Rs.12,892,329 for the gratuity payment included in the allowable expenses. The audit observed that due to the change in the gratuity adjustment in the calculation of income tax as such, the income tax for the year has been underestimated by Rs. 1,055,918.
- Income tax payable for the assessment year 2021/2020 should be calculated and paid on or before September 30, 2021 and during that period we will recalculate the tax and check with the tax currently disclosed in the financial statements and if there is a under or over calculation, it will be corrected and the final tax will be paid. It is kindly informed that if there is an over or under provision in the calculation of declared taxes in our financial statements during the final tax payment, it will be amended in line with the income tax payments for the coming year.
- It should be prepared financial statements with accurate information pertaining to the due financial year.

- (j) The stock of Rs.2,064,022 related to 14 closed court cases regarding forest crime timber that were in the Kanduruwela timber depot had not been taken to the closing stock as at December 31, 2020. Accordingly, the stock for the year 2020 had been calculated lesser from that amount.
- Shredded timber that released from 14 court cases had been taken into stock books and those were submitted to the board of survey. However, the officer in charge of stocks has not taken steps to take the 124 logs released from those cases into the stock books as required and present them to the board of survey. The reasons for that were, although logs were laid in the store premises under the observation of regional manager to examine the logs before taking into books again, there was insufficient space in the stores as logs were already laid in the premises and stores were closed continuously due to Covid pandemic. It is informed that action will be taken to rectify this situation immediately.
- It should be prepared financial statements with accurate information pertaining to the due financial year.
- (k) Although the value of sundry creditors were Rs.14,318,305 as per trial balance as at 31 December 2020 of the Polonnaruwa regional office, the advance amount of Rs.3,786,125 that agreed to pay for contractors was included in it. As a result, sundry creditors amounted to Rs.3,786,125 had been accounted more.
- Out of the amount of Rs. 3,786,125 paid to the contractors, the balance amount except of Rs. 9,155 was a provision made for the expenses of for mulching the old teak roots and new teak roots removed at timber supplies in year 2020.
- Action should be taken to declare the correct credit balance.
- (l) Though cash sales advance of the Corporation was Rs.136,839,184, action had not been taken to identify the advances received from auctions that expired 03 months in the year under review and take into revenue by the Corporation. As source documents in the regional offices had not been prepared for those advances, it could not be verified at the audit whether the advance account balance available is true.
- Sales advance balances that shown in each regional offices as at 31 December 2020 were the balances that not cleared in the accounts due to withdrawal of stocks in the first month of the next year though the customers paid the 25 per cent of sales advances at auctions. Final accounts report should be presented after preparing bank reconciliation reports that prepared using current account deposits that deposited by marketing division in every regional office in relation to final account in the year. Actions should be
- Actions should be taken to account only the transactions relevant to the year correctly.

done by prioritizing that work and the advance for the last month of the previous year will be settled from the relevant invoices during the first month of the following year.

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

The instances for non-compliance with Laws, Rules, Regulations and Management Decisions were below.

Reference to Laws, Rules and Regulations	Non-compliance Rs.	Comments of the Management	Recommendation
(a) Section (i) 14(1) of the Finance Act No. 38 of 1971	Though a copy of the draft annual report with the accounts should be submitted, it was not submitted as such.	Actions will be taken to submit this report soon	Actions should be taken to comply with applicable rules and regulations.
(b) Financial regulation 110 of Financial Regulations of Democratic Socialist Republic of Sri Lanka	Corporation had not maintained register on damages	Relevant divisions were informed in this regard and advised to maintain register for damages since 2021.	Actions should be taken to comply with applicable rules and regulations.
(c) Public Enterprise Circular No. PED/2015/01 dated on 25 May 2015	Although it was advised to reimburse actual fuel expense incurred under Board approval at special instances that monthly fuel allowance of official vehicles owned by officers is not	According to General Treasury Circular No. PED/2015/1, the approval had been taken properly for additional fuel expenses of all officers owned official vehicles by referring to Board of Directors every month.	Actions should be taken to comply with applicable rules and regulations.

sufficient, additional fuel expenses of other officers except General Manager of the Corporation of Rs.973,350 had been paid only with the Chairman's approval. Accordingly, I would like to state that the approval of the Board of Directors has been obtained on a monthly basis for the additional fuels of the Deputy and Assistant General Managers including Chairman, the Acting Director, the General Manager.

- (d) Department of Management Services Circular No. 2020/02 dated on 26 October 2020
- An external person had been recruited on assignment basis with the Board approval for the post of Secretary to the Board of Directors that was not included in the approved cadre and paid Rs.337,000 for year 2020 under "Consultancy services and special payments". There were no qualifications that based for the recruitment or Scheme of Recruitment.
- The approval has been given for the post of Secretary to the Board of Directors in State Timber Corporation for 06 months by Board of Directors and the service is being extended further with the approval of the Board of Directors.
- Recruitments should be done for the posts as standard as per circulars.

- (e) Paragraph 13 of Chapter XXIV in Establishment Code of Democratic Socialist Republic of Sri Lanka
- Although it should be recovered within one year after giving festival advance, actions had not been taken by the Corporation to recover Rs. 125,300 that remained more than one year by the end of the year under review.
- Corporation gives Rs. 10,000 as festival advance for permanent and casual employees and, guarantee of permanent employees is taken for casual employees' payment. However, balance should be recovered from employees who were suspended/ left and it is able to recover this money after finishing disciplinary actions.
- Actions should be done according to standard rules
- (f) In accordance with the requirement of Section 12 (g) of the National Audit Act No. 19 of 2018, the powers, functions and activities of the Corporation have been complied with except the following observations
- Out of the objectives of the Corporation, the Corporation had not taken actions to fulfil the objective of exportation of agricultural products and cane and the production and sales of timber by products had not been done as expected. The exportation of sleepers had not been done in the year under review. Although an objective of the Corporation was to export wooden based finished and semi-finished products, action had not been taken to fulfil that objective.
- As other governmental organizations are taking actions for the production of agricultural and cane products, State Timber Corporation had not contributed for those objectives. The production of timber by products had been done at optimum level in our furniture factories by now and a considerable income was earned from selling ornamental furniture (Ex: clock, vases, racks, cutting boards) in Kandy and Ampara regional offices. Exports of timber sleepers had been done in previous years and due to some issues with the agreed institutions, it was not implemented in year 2020. It is expected to be further implemented on the new agreements in 2021.
- Actions should be done according to standard rules

- (g) Section 12 (h) of the National Audit Act No. 19 of 2018
- As per the requirement of the Section, except for the following observations, the Corporation's resources have been reserved, utilized and utilized in a timely manner, efficiently and effectively. An agreement was reached with a contractor on 06 January 2020 for the construction of the water tank at Kaldemulla Complex and according to the agreement, the contract had to be started within 14 days and completed within 90 days. The contractor had failed to start the contract during that contract period and work was delayed for more than six months and commenced on 23 July 2020. Although 20 per cent of the contracted amount, that is Rs.352,906 should be paid as advance as per contract agreement, in contrary to that, 30 per cent, that is Rs.529,000 had been given. Constructions had not been done according to the plan and although contractor agreed to complete the works by 22 October 2020, it had not been done so. Works had not been
- The contract was signed on January 08, 2020. However, the proposed place for constructing this water tank was changed and two toilet pits had to be removing in new place. The procurement process of placing them by removing pits were done from Kaldemulla mechanical division and that procurement process was finished on March 2020. But, the country was closed for 02½ months amidst of Covid situation at that period. However, the contractor commenced the constructions on 23 July 2020. Although an advance can be got subject to maximum Of 30 per cent as per Procurement Guideline, Failure to state this in the contract with the contractor by mistake. Accordingly, the contractor has given a bank guarantee and obtained a 30 per cent advance. However, the non-disclosure of this in the agreement with the contractor was due to an omission and it was advised to rectify those deficiencies in future.
- Actions should be done according to standard rules

done even by April 2021 and required actions had not been taken as per agreement.

**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.463,906,674 as compared with the corresponding profit of Rs.317,423,655 for the preceding year. It was observed a growth of Rs.146,483,019 in the financial result. Adjustment of Rs.143,981,831 of inventory and over provision of doubtful debts in to accounts had been the main reason for this growth.

**3. Operational Review**  
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**3.1 Identified Losses**  
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<b>Audit Observation</b> -----	<b>Comments of Management</b> -----	<b>Recommendation</b> -----
It had been recommended on 17 November 2018 by the independent disciplinary board to charge the loss from responsible parties for it in relation to the irregularity of misplacing 69 tress in Halmillewa 03/006 Teak workplace owned to Minneriya regional office in 2015. In contrary to this recommendation, as it was suspended to implement this order by former chairman, there was a loss of Rs.2,994,536.	It was agreed by accused after calling to Corporation disciplinary committee for the charging loss incurred to the Corporation in relation to the irregularity happened in Halmillewa 03/006 workplace. Accordingly, a committee had been appointed to decide the amount to be charged certainly. I state that further action will be taken after receiving the report of that committee.	Recommendations that given by proper disciplinary examination should be implemented.

**3.2 Management Inefficiencies**  
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Following observations were made.

<b>Audit Observation</b> -----	<b>Comments on Management</b> -----	<b>Recommendation</b> -----
(a) Out of the 170 court cases for the Minneriya warehouse, 32 court cases were for the timber crime cases of years 2011 and 2012 and, the value of those timber was Rs.1,667,882. Old timber is being	At the time of the audit, there were about 30,000 loges in warehouse and, although the loges were physically available, there was a difficulty in showing as the attendance of employees were limited due to Covid	Management should work to streamline timber warehouse administration.

damaged severely and it was unable to confirm the physical availability of that timber.

pandemic. I would also like to inform you that we will look into the possibility of selling timber for the years 2011 and 2012 until it is released from litigation.

- (b) Since the inventory books at the Polonnaruwa Regional Office were not balanced, some of timber was heavily decayed, most logs cannot be identified with numbers, Audit observed that the physical stock verification could not be done accurately. Accordingly, the accuracy of the inventory value of Rs. 133,120,313 mentioned in the Board of Survey and the timber inventory value of Rs. 1,855,504,806 included in the financial statements were controversial at audit.

We have advised the Regional Offices not to take decayed or unusable timber logs with unsalable value into the final stock when calculating the cost. The cost is calculated on the basis of the inventory survey papers issued by the Regional Boards of Survey which are physically inspected and signed. If there is any deficiency or excess between the physical balance and inventory book balance, it is inspected by the Internal Audit Division and action will be taken to recover the relevant amount from the officer in charge of the stock.

Management should work to streamline timber warehouse administration.

- (c) The timber related to the crimes from 2014 to 2018 in the Kaduruwela warehouse was valued at Rs.421,102 and the necessary action has not been taken by April 2021 by investigating those court cases.

Actions are taken to release timber by coordinating relevant institutions by Deputy Regional Manager and Assistant Regional Manager in relation to forest criminal timber in the Kaduruwela warehouse that not released. They regularly check on the current status of relevant cases and releases in writing by visiting those agencies on a regular basis. However, I would like to point out that due to the Covid epidemic which has been going on since last March, there has been a slight delay in those activities.

Management should take actions to take that inventory into the inventory of corporation through follow-up on forest crimes.



### 3.3 Idle or Underutilized Property, Plant and Equipment

#### Audit Observation

The Minneriya Regional Office has 30 official quarters and only 07 quarters out of it had been used. 10 quarters were used for the purposes of the Biodiversity Park and the remaining 13 quarters remained idle. Except for two official quarters, the remaining 11 houses were at the condition of unusable.

#### Comments of Management

The Minneriya Regional Office has 30 official quarters and except quarters of Regional manager, the other quarters were constructed in 1968. Only 07 quarters out of it had been used. Huge amount of cost is incurred to rehabilitate these quarters and though they are rehabilitated, it is not possible to specify a period of time during which they can be utilized. Therefore, the head office will prepare estimates for the new construction and take further action.

#### Recommendation

Action should be taken to rehabilitate the official quarters timely so as to use.

### 3.4 Procurement Management

#### Audit Observation

According to the terms of the tender, if the price offered by the contractor for the main product items is more or less than 30 per cent of the estimated price, 30 per cent of the security from the supply value should be deposited. However, the deposits of Rs.8,160,000 that should be deposited for supply value of Rs. 27,200,000 of four contractors had not been deposited.

#### Comments of Management

According to the 2020 Procurement Guidelines, the timber supplies had been updated in 2019 for the compliance with the provisions of it. Until then, no guarantee has been made for extra work in general. Accordingly, for a long time a registered contractor of the Corporation had been appointed as the successful contractor in the timber supply worksites. As the procurement system related to the timber supply process had not been updated and the relevant amount could not be recovered.

#### Recommendation

Actions should be taken in compliance with tender conditions.

### 3.5 Deficiencies in Contract Administration

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Following observations were made.

Audit Observation	Comments on Management	Recommendation
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<p>(a) The contractors in charge of two sites had left the work without completing and, the Corporation had not acted in accordance with the condition 21 of the Agreement in this regard. Due to this, a large amount of money had to be spent to re-procure and the timber stored near the roads was being destroyed unsafely. The Corporation had suffered losses due to this.</p>	<p>After the two sites were vacated by the contractors, The remaining timber has been cleared by another contractor. It is currently in the final stage. As soon as the supply of timber is completed, a profit and loss report will be submitted regarding the delay in supply of the remaining timber stock.</p>	<p>Special attention of management should be paid on contract administration.</p>
<p>(b) In case one contractor has not completed the work on the due date and although it has been revealed that the B, C and D sites at Robgill were operated by the same contractor, another contract had been awarded.</p>	<p>The following submissions were made regarding the assignment of Dixon Corner 03/003 B Thinning Worksite in 2018 to the Contractor who supplied the timber in charge of the Robgill site A.</p> <p>Blacklist the contractor for not assigning the worksite</p> <p>Achieving more timber supply targets when reviewing progress at the site at that time.</p> <p>This work has been submitted to the Tender Board as the Chairman of the Technical Committee and, giving approval of tender board after considering those matters.</p> <p>He was then asked by the Legal Division to provide legal advice on bidding for the assignment of the workplace and informing in writing that there is no objection to bidding for work sites.</p>	<p>Special attention of management should be paid on contract administration.</p>

- (c) The tender deposit of Rs.20,000 was released to two contractors who were selected through a tender evaluation and later resigned and it had not been entered into blacklist. Also, as the necessary arrangements were not made to award the contract at the same price due to this, the Corporation had incurred a loss of Rs. 2,725,541.
- As the timber supply tenders condition (28) has not been clarified for compliance with the provisions of Procurement Guidelines 6.3.4 in this regard, it was not specified when the contractor would be required to leave. Therefore, the letter of resignation was handed over by him when it was deemed appropriate. Accordingly, a letter of warning has been issued by the Deputy General Manager (Operations) to prevent such incidents by considering all matters. To avoid this error the provisions of Section 6.3.4 of the Procurement Guidelines have been included in the Procurement Bidding from 2019 onwards. Also, rejected bids cannot be used as a basis for selecting successful contractors. Therefore a profit-loss comparison cannot be made.
- Special attention of management should be paid on contract administration.
- (d) The contract had been awarded to fall down 2,172 trees under four sections of Robgil site. Although the complete logging work was supposed to start on May 18, 2018 and be completed by 31 August 2018, the work had not been completed by the due date. Work on the site was being continued until 2020.
- This site that released in the year 2018, is located in a very difficult mountainous area in the Sri Pada area where there is heavy rainfall. Due to the difficulties in the work site, the first contractors stopped supplying timber. They were then blacklisted. By this time all the trunks had been removed from the work site and were in laid near the road. The removal of the timber was advertised in national newspapers and on several occasions steps were taken to select a bidder.
- Special attention of management should be paid on contract administration.

Accordingly, the contractor who submitted in the 4th instance has already about 70 per cent of the timber harvest has been removed from the site and timber supply is in the final stage.