

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Fertilizer Company Ltd (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

1.4 Audit Scope (Auditor's responsibility for the financial statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to the relevant standard	Comment of the Management	Reccommendation
(a) Although the all liabilities beyond one year should be stated under non-current liabilities in the statement of financial position as per the paragraph 69 of Sri Lanka Accounting standards 1, the payable amount of Rs.3,377,769,725 beyond the period of one year in relation to 17 letters of credit of import fertilizer had been stated under the current liabilities.	Agree. Out of these short-term loans, the loans for other crops were restructured in the year 2023 and the balance converted into a term loan account. Accordingly, relevant adjustments have been made in the year 2023.	Current liabilities and non-current liabilities should be accurately identified and accounted for according to Sri Lanka Accounting Standards.
(b) Although it was stated in the financial statements that there was no local purchase of fertilizers in the year under review, the amount of Rs.103,099,679 incurred for the purchase of local fertilizer had been included in the value of the import bills of fertilizer. Although the items of the financial statements should be presented and classified corresponding to the previous year as per the paragraph 45 of Sri Lanka accounting Standards 1, it was observed that the local purchases and imports of fertilizer were not disclosed in the financial statements corresponding to the previous years.	Agree. Rs.103,099,679 worth of local organic fertilizer purchases has been erroneously shown under import bill value under cost of sales. Nevertheless, the purchase of organic fertilizers should be shown under local purchases. Corrections will be made during the year under review.	Items of the financial statement should be presented and classified corresponding to the previous year as per Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Reccommendation
(a) An interim payment of Rs.13,000,000 had been made to a private supplier during the financial year 2020/2021 before the settlement of final invoice for transport and handling expenses and the value of the final payment voucher was Rs.21,892,044. When the accounting of this transaction, due to the fact	Agree. Rs.9,000,000 and Rs.4,000,000 incurred for the year 2020/21 for transportation and handling expenses totalling Rs.13,000,000 only needs to be adjusted from this	Expenses related to the year should be properly identified and correct adjustments should be made in the ledger accounts.

that the aforesaid interim payment had not been debited to the expense account and the remaining expense had been debited to the other creditor account without debiting to the relevant expense account, the transportation and handling charges of the year under review were understated by Rs.21,892,044 and the balance of the other creditor account was understated by Rs.8,891,994 and the balance of the advance account under current assets was observed by Rs.13,000,000. Accordingly, profit of the year under review had been over calculated by Rs.21,892,044.

year's accounts. Appropriate adjustments will be made for that. As mentioned in the audit query, although the profit during the year under review was stated as an overestimation of Rs.21,892,044, its correct value is only Rs.12,500,000.

(b) The total amount of Rs.11,260,280 had been spent for medical insurance premium, workman compensation insurance premium, fire insurance premium and cash in safe insurance premium in the year under review as Rs.10,469,271, Rs.171,225, RS.572,730 and Rs.47,054 respectively and out of that expenditure, the amount of Rs.3,692,175 related to the next year had not been accounted as a pre-payment. Furthermore, Rs.3,966,559 which is the balance of the pre-paid insurance premium expense account in the previous year had been shown under current assets in the financial statements without adjusting to the insurance premium expense of the year under review. Accordingly, it was observed that the profit of the year under review and the value of the current assets had been over calculated by Rs.274, 384.

Agree. A total of Rs.11,277,256 has been incurred as insurance premium in the year under review and the insurance value paid for the next year is Rs.3,696,758. Relevant adjustments will be made and corrections will be made during the year under review.

Expenses related to the year should be properly identified and accounted.

(c) The total unclaimed retention amount of Rs.371,403 in relation to five contractors who provided container office construction and renovation services by 31 March 2022 which exceeded 06 months had been stated as a payable balance without settling by inquiring from the related parties.

Disagree. Since one year has not passed by 31.03.2022, it should be recorded in the accounts for payment in case of made claims, and therefore it should be recorded in the accounts for a reasonable period.

Arrangements should be made to settle the overdue deposits after asking from the relevant parties and credit the income if not claimed.

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| (d) | The amount of annual depreciation for container offices is Rs.516,689 and only Rs.274,290 had been accounted as container offices depreciation during the year. Accordingly, it was observed that non-current assets and profit for the year had been over calculated by Rs.242,399. | Agree.
Relevant adjustments and corrections will be made during the year under review. | Annual depreciation should be calculated and accounted for in accordance with the company's depreciation policy. |
| (e) | Cash had been received in relation to the value of Overage Premium income of Rs.542,000 which was accounted as income receivable in the financial year 2020/2021 in the current year and due to it was credited to the overage premium income account instead of being credited to the debtor account, it was observed that the current assets and profit for the year had been overstated by that amount. | Agree.
The error of incorrectly recording these account codes was identified during the accounting year 2021/22, and corrected by JV/BK/2022-23/16 and adjustments were made to the account on 31.03.2023. | Income receivable should be properly recognized and accounted. |
| (f) | The bid security of Rs.362,500 received from a private company which is provided manpower supply and consulting services due to failure to provide warehouse workers for warehouses of the company as per the agreement had been further shown as a current liability instead of accounting as income of the company. | Agree.
The error of incorrectly recording these account codes was identified during the accounting year 2022/23, and corrected by JV/BK/2022-23/46 and adjustments were made to the account on 31.03.2022. | Bids security recovered should be accounted as an income. |
| (g) | The refundable bid securities of Rs.796,000 which was unclaimed over a period of 04 to 12 years had been stated as a current liability without taking in to income by looking on it if claims are not made. | Agree
It will be submitted to the audit committee in this regard and action will be taken according to the recommendations of the committee. | The bids security should be taken into income after confirmation of non-claims. |
| (h) | A shortage amounting to Rs.2,441,181 had been made in stationary, plumbing fixtures, building materials and auto spare parts included in consumables account in the accounting year 2020/2021 and it had been stated in the financial statements as other receivable instead of carrying out investigation regarding the shortage and recovering from responsible parties. After inspecting the facts about that shortage, the audit had been reported by the chairman by informing that the amount of Rs.2,010,196 as unissued fixed assets in the warehouse and | Agree.
Relevant adjustments and corrections will be made during the year under review. | Actions should be taken to adjust the shortage. |

some consumable items worth of Rs.15,470 should be included in the physical stock and accordingly the actual shortage in the warehouse was revealed as Rs.415,514. Nevertheless, it was observed that the non-current assets by Rs.2,010,196 and current assets by Rs.15,470 had been understated and the profit of the year had been overstated by Rs.415,514 due to showing the shortage of Rs.2,441,181 as receivable in the financial statements without making any adjustment in this regard in the current year.

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| (i) | <p>The policy of the company is to identify dispatch money income for the year based on the invoice date. Accordingly, when cash was received in the current year in relation to the previous year and to the dispatch money income of Rs.6,045,000 accounted as dispatch money income due in that year, it had been credited to the dispatch money income in the current year instead of being credited to the sundry creditors account. Further, the Dispatch Money of Rs.1,264,000 related to the current year had been accounted as receivable income in the previous year and without correcting that, it had been identified as income in the current year as well. Accordingly, it was observed that current assets and the profit for the year had been overstated by Rs.7,309,000 due to the above accounting.</p> | <p>Agree.
The error of incorrectly recording these account codes has been identified in 2022/23, and corrected by JV/BK/2022-23/14 and JV/BK/2022-23/15 and adjustments have been made to the account on 31.03.2023.</p> | <p>Income related to the year should be properly recognized and accounted.</p> |
| (j) | <p>The amount of Rs.732,188 paid on 27 April 2021 for sample test reports and analytical reports carried out in relation to the imported fertilizer stock in 2020/2021 had been debited to an asset account as import purchase advance and the profit of the year had been overstated by that amount due to not accounting as expenses.</p> | <p>Agree.
Appropriate adjustments and corrections will be made.</p> | <p>The actual expenditure relating to the year should be identified and accounted.</p> |

- (k) Due to the over recording an advance settlement of Rs.500,000 for shipments in the advance account incorrectly, the related expenses had been overstated by that amount and the balance of the advance account had been understated by that amount. The profit of the year had been understated by that amount due to this.
- Agree. Relevant adjustments and corrections will be made during the year under review.
- Expenses related to the year should be identified and accounted.
- (l) It was observed during the audit that the cost of sales stated in the financial statements of the company was overstated by Rs.130,038,000 due to the accounting of Rs.34,962,000 in the financial statements instead of accounting the cost of the stock mentioned in the agreement of Rs.165,000,000 as the transaction related to the exchange of stock of fertilizer with private fertilizer companies on credit basis was not completed within the same accounting year. Further, a specific date for the return of the said stock to the company had not been mentioned as per the said agreement and uncertain date had been mentioned as the date of return of the stock after the arrival of the immediate shipment.
- Disagree. As per the agreement to exchange fertilizer stock on credit basis, the stock should be accounted for at the time of exchange at the lower of cost or net realisable value. When issuing goods to a third party on the basis of exchange of goods by our company, the relevant price was determined on the basis of market value.
- The value of stock should be valued at cost when exchanging fertilizer stock on credit basis.
- (m) The 10 metric tons of urea fertilizer had been given to a private company in Dankotuwa, Naththandiya area by the company as per the requested of the Director of the National Fertilizer Secretariat through the letter No. SMFI/2/D/NFS/11 (General) dated 14 September 2021 without cabinet approval for the stock of imported chemical fertilizers to be given as subsidies to the farmers as per the cabinet decision at a time when the ban of chemical fertilizers is in effect. The commercial value of fertilizer of Rs.900,000 was taken as a security deposit by the company and the assets and liabilities had been understated in the financial statements due to mistakenly crediting that amount to a debtors account.
- Agree. Relevant adjustments and corrections will be made during the year under review.
- When providing chemical fertilizers which were imported to provide to farmers as subsidies to private parties, a cabinet approval should be obtained and the security deposits should be properly accounted.

- (n) The 250 metric tons of fertilizer given to the private fertilizer company in Colombo area on credit basis in the previous year had been returned to the company in the year under review and the transfer value of the fertilizer in the previous year had been stated as Rs.7,500,000 in the financial statements. The cost of sale had been overstated by Rs.900,000 in the financial statements in the year under review due to the fact that the value of the stock of fertilizer was under-accounted for by Rs.900,000 as Rs.6,600,000 during the get back of the respective fertilizers.
- Agree. Relevant adjustments and corrections will be made during the year under review.
- The value of stock should be valued at cost when exchanging fertilizer stock on credit basis.
- (o) Although the land with an area of 29.93 perches called Wariyapola Estate where the Lakpohora warehouse is established in the Matale district was legally transferred by the Land Reformed Commission to the company on 10 September 2020 through a deed, the non-current assets had been understated in the financial statements due to the fact that the land had not been assessed and accounted.
- Agree. A formal valuation will be obtained through a chartered Assessor and adjustments will be made to the accounts in this accounting year.
- The land should be assessed and accounted.
- (p) The company was purchased 4 container offices costing Rs.2,916,000 on 06 August 2021 and only the value of Rs.2,781,000 paid in cash for that had been recorded in the relevant asset account and the amount of Rs.135,000 which is related to the retention amount had not been recorded in the relevant asset account and the retention account. Accordingly, it was observed that non-current assets and current liabilities had been understated by that value.
- Agree. Relevant adjustments and corrections will be made during the year under review.
- Retention money should be correctly identified and accounted.
- (q) The total cost for the renovation of bungalow No.02 owned by the company is Rs.2,226,150 and only the first instalment of Rs.1,446,997 had been recorded in the building account. Accordingly, due to the non-recording of the relevant retention amount of Rs.111,307 in the retention money account and the relevant asset account, the Non-current assets and current liabilities had been understated by that value.
- Agree. Relevant adjustments and corrections will be made during the year under review.
- Costs related to the asset should be accurately identified and accounted.

1.5.3 Unauthorized Transactions

Description of unauthorized transaction	Comments of the Management	Recommendation
<p>(a) Although only 50 percent of the Dispatch money received annually by the company will be paid subject to the approval of the Board of Directors subject to a maximum amount equal to three months basic salary based on the performance of the employees as per letter No.PED/S/CFCL/03/06 (i) dated 08 April 2022 and letter No.PED/P/04/24(i) dated 06 April 2021 of the Director General of the Department of Public Enterprises, the company has made incentive payment of Rs.48,431,198 during the year under review defectively based on the sum of basic salary and cost of living allowance of the employees and out of that Rs.8,242,375 were observed to be non-compliant with the circular instructions.</p>	<p>In addition to the circular issued by the Public Enterprises Department mentioned in the observation, according to the Director General's letter No.PED/S/CFCL/03/06(i) dated 21.12.2021 issued by the said department, employee incentive payments has been done subject to a maximum amount equal to 03 months' salary with the approval of the Board of Directors.</p>	<p>According to the circulars of the Director General of the Public Enterprises Department, the incentives should be calculated based on the officer's basic salary and arrangements should be made to recover the overpaid incentives.</p>
<p>(b) The company had been taken action to give the stock of fertilizer which imported to release to paddy farmers under the Cabinet approval to private fertilizer companies in the areas of Kelaniya, Colombo and Makola on credit basis and to get fertilizer from those companies on credit basis. Accordingly, the company had been taken actions to give 2,504 metric tons of fertilizer to private fertilizer companies on credit basis and to get another 5,066 metric tons of fertilizer from private fertilizer companies on credit basis. In the year under review, 3,496.2 metric tons of fertilizer obtained from private fertilizer companies in the previous year had been returned and 250 metric tons of fertilizer given to private fertilizer companies had been received. This is observed as non-compliance with the approval given by the Cabinet for the import of fertilizers.</p>	<p>Disagree. Fertilizer releases and purchases on exchange basis have been made with the approval of the National Fertilizer Secretariat and settlement of fertilizers given and received on exchange basis has been done by now.</p>	<p>Fertilizers should not be given to private companies on credit basis without taking the Cabinet approval.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The total receivables of the company due to issuance of fertilizers on credit basis by the company to Government Departments and Institutions, Agrarian Service Centres, Dealers and Distributors was Rs.1,530,184,011, and the audit observations regarding the balances included there in are as follows.

Audit Observation	Comments of the Management	Recommendation
(a) Although, the company had to be received an amount of Rs.37,993,346 and Rs.35,931,679 respectively from the Janatha Estates Development Board and the State Plantation Corporation regarding towards providing fertilizer on credit basis since 10 years, the company had been failed to recover those balances and it was observed that, although the agreements had been reached with the relevant institutions from time to time to transfer a fixed asset to the company, it had not been implemented effectively.	Agree According to the discussion held with the Secretary of the Ministry of Plantation on 15.05.2023 regarding the recovery of an amount of Rs.37,993,346 and Rs.35,931,679 from the Janatha Estates Development Authority and the State Plantation Corporation respectively, these both institutions were agreed to pay off this outstanding loan amount by 31.12.2023 and a reminder letter in this regard had also been sent by now.	Debt balances should be recovered.
(b) It was observed that even on the date of audit, the company had been failed to recover the credit balances of Rs.807,650 exceeding 03 years of Palwatta Sugar Company and credit balances of Rs.120,500 exceeding one year of Ibbagamuwa Paddy Research and Development Institute.	Agree. The company has not announced an agreement regarding the balance of amount to be charged for the fertilizer supplied to Pelawatta Sugar Company since the year 2018. Balance confirmation letters were not provided. The internal audit department will also conduct a special investigation on this. According to the instructions of the National Fertilizer Secretariat, although it was stated that the issuance of subsidized fertilizers for the 2020 Yala season should to be done without charging, the credit invoices have been issued to the Bathalegoda Research Institute. The amount to be collected from the Treasury as handling cost for the fertilizer provided is Rs.125,900. Although the request from the National Fertilizer Secretariat for the handling cost was done, it has not been received so far and the necessary actions will be taken to obtain this amount during the current year.	Debt balances should be recovered.

- (c) It was observed that as at the end of the year under review, the total receivable credit amount to the company from 346 Agrarian Service Centers was Rs.1,385,011,522 and Rs.490,990,037 out of that is the outstanding loan balance existing in period from 01 year to 05 year.
- Disagree.
- Under the fertilizer program for the 2018/19 season, the outstanding amount for lending fertilizer to Mahiyangana Agrarian Service Center from the year 2018 is Rs.1,839,321. In this regard, it has been stated in the letter No.DFD/FSCS/OFC/2023 addressed to us on 27.07.2023 by the Department of Development Finance that it is appropriate to conduct a joint investigation with the participation of the officers of the Internal Audit Division of the Ministry of Agriculture and the National Audit Office and get the recommendations.
- The total amount to be collected from the Agrarian Service Centers is Rs.1,385,011,522 and an amount of Rs.489,150,725 out of that related to the period of 1 to 2 years is to be collected and the rest is the handling to be collected from the Agrarian Service Centers. Currently, those amounts are being received.
- Accordingly, it is stated that, out of this Rs.490,90,037, Rs.489,150,725 amount is between 1 and 2 years and only Rs.1,839,321 amount is spread over a 5-year period.
- Debt balances should be recovered.
- (d) It was observed that the total outstanding value for the stock of fertilizer issued by the company on credit basis to the sales agents during the period from 04 to 10 years was Rs.13,239,202.
- Agree.
- Details of these customers are attached hereto. From the amount of Rs.13,239,202 to be collected from private institutions from 04 years ago, the balance to be collected is Rs.12,892,083 after deducting the excess amount of Rs.347,119 from the previous years. The amount to be collected from 04 to 05 years is Rs.11,820,298 out of that. The amount to be collected from 08 years to 09 years is Rs.878,607 and the amount more than 10 years is Rs.193,178.
- Legal action has been taken in the Gampaha District Court to recover the total amount of Rs.936,100 due from Weerasinghe Constructions from these customers and the write is scheduled to be executed.
- A case has been filed under case number 1695/M in the Polonnaruwa Magistrate's Court to recover Rs.878,607 due from Bridgen Chemicals.
- Debt balances should be recovered.

The owner has been dead.

A case has been filed in the Gampaha District Court under case No.51/21/M and the loan amount to be collected from Sachinta Stores after payment in instalments is Rs.380,200.

A case has been filed under Gampaha District Court Case No.330/20/M for the sum of Rs.10,230,000 due from Hayde Agro Business.

Since the outstanding amount from the following customers is less than Rs.250,000, legal action cannot be taken and therefore a credit committee will be appointed and further work will be done based on the recommendations of the committee.

- Mahesh Kumara- Rs.193,178
- Shiranta Agro Chemicals- Rs.137,950
- DNW Stores - Rs.146,595
- Tarushika Traders - Rs.118,850
- Disula Agro Chemicals- Rs.217,768

- (e) It was observed during the audit that the total receivable credit balances to the company from the distributors of fertilizers who distribute from the company to the Agrarian Service Centers which exceeded 04 years is Rs.44,941,885. Agree. The balance to be collected from the distributors from 2014 for the supply of liquid fertilizers is Rs.44,941,885. A case has been filed under case No.216/20M in Gampaha District Court to recover the loan amount of Rs.9,708,564 from Zaburkhan Amirjitkhan. Debt balances should be recovered.

In order to recover the loan amount of Rs.10,216,221 from G.N.K.Gamage, a case has been filed against him under the Case No.B2090/20 in Wattala Magistrate's Court and the Attorney General's Department is in the process of filing a civil case in the Gampaha District Court.

The loan amount due of Rs.1,989,608 from Suhada Agro has been fully paid in installments on 06.06.2022, 15.06.2022 and 19.09.2022.

Regarding the loan amount of Rs.23,027,492 to be collected from the Sri Lanka Consumer Society Co-operative Union, the Criminal

Investigation Department has filed a case in the Wattala Magistrate's Court under case No.B 3397/21 and the Attorney General's Department is in the process of filing a civil case.

1.6.2 Payables

Audit Observation	Management Comment	Recommendation
(a) Instead of being remitted the total amount of Rs.14,962,309 which was collected from those officials from the year 2014 to 2021 by suing against the storekeepers based on the shortage of fertilizer to the Treasury, it was shown in the financial statements from many years as a value payable to the Treasury.	Agreed. The money collected after prosecution from various wholesale agents and warehouse keepers from the year 2014 to 2021 on shortage of subsidized fertilizer stock has been recorded in the account as a payable to the Treasury. After receiving the money from the General Treasury as per the letter sent to the Secretary of the Line Ministry on 2023.07.12 requesting the money due from the General Treasury by now, action would be taken to pay again this money to the General Treasury.	The amount to be remitted to the Treasury Should arranged to remit immediately.

1.6.3 Advances

Audit Observation	Management Comment	Recommendation
Although the amount of Rs.2,143,772 had been accounted for as an advance in the year 2007 for bearing expenses related to shipments, it had not been settled by the date of audit and the company was unable to confirm the officer who received that advance.	Agreed. The amount of Rs.2,143,772 given to the procurement section as advance in the year 2007 has been recorded in the accounts as advance due to non-submission of bills or non-settlement of money.	Settlement should be made after verifying the relevant balance.

2. Financial review

2.1 Financial results

The operating result of the year under review amounted to a profit of Rs.81,575,919 and the corresponding profit in the preceding year amounted to Rs.124,392,743. Therefore deterioration amounting to Rs.42,816,824 of the financial result was observed. The reasons for the deterioration are decrease in sales revenue, miscellaneous income and dispatch money income.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) The warehouses located in the buildings belonging to government agencies such as Mahaweli Authority, Department of Agricultural Development, Department of Rubber Development, Department of Railway Development, Department of Railway etc. has being used for the operations of the company and those are maintained in the areas of Higurakgoda, Akuressa, Matale, Kurunegala, Nuwara-Eliya, Kegalle, Medawachchiya, Kuruwita, Dodangoda, Mathugama, Koggala and Weerawila. It was observed that the action had not been done to take the legal ownership of that regional fertilizer warehouses or to get the clear identification of lease arrangement or to recognized the value of the above warehouses under the Property Plant and Equipment.	Disagreed. A property which does not have a proper lease agreement or is not owned by the company cannot be recorded in the accounts under Property Plant and Equipment as per the Sri Lanka accounting Standards 16. It has been clearly disclosed under note number 11 in the final accounts in this regards.	Action should be taken to acquire the legal ownership and to clearly identify the lease arrangements and the value of warehouses should be properly indicated in the financial statements.
(b) The fees to be charged for booking the Nuwara-Eliya and Polonnaruwa circuit bungalow owned by the company had been specified through the Board decision No. 2412 dated 29 March 2019 taken in terms of Board paper No.265/19/01 dated 31 January 2019. A Rs.462,000 has been lost by the company when making reservation in the year 2020,2021 and 2022 due to made charges contrary to those instructions. Also, in some cases, a loss of Rs.339,000 was incurred due to providing the circuit bungalow free of charge to officials outside the company in some circumstances and their family members and a cost of Rs.89,696 was incurred for providing free food to some persons. Further, in such cases, the bookings which were paid advance	Agreed. The circuit bungalow had been booked to certain persons outside the company as per the instructions of the top management as per the same fee and rates considering as the internal member of the company according to the Board Decision No.2412 taken in terms of Board Paper No.265/19/01. It is informed that the parties responsible for the recovery of the losses incurred in the years 2020/21 and 22 have been identified and further action will be taken. The income lost to the company is not Rs.419,000 nevertheless it is Rs.287,500. The parties staying at the circuit bungalow has been charged without considering of festival season and non-festival season/weekdays and weekends/ government holidays and	The relevant bookings and charges should be made as per the Board Paper.

in previously has been cancelled and the lost income was Rs.112,500.

thus the lost to the company is not Rs.43,000 nevertheless it is Rs.9,000. It is informed that the parties responsible for this will be identified and further actions will be done. The circuit bungalow had been provided free of charge for the internal officers of the company on the basis of duty requirement by the internal circular No.CFC/GM/internal circular dated 2016.07.10. However, the systematic arrangement for bookings circuit bungalow to officials of Line Ministry or government has not been made. It is informed that the matter will be presented to the Board of Directors in the future and a decision will be taken regarding the fees to be collected from external officials who travel to Nuwara Eliya for official purposes in this regard. Also, since re-cancellation after booking the circuit bungalow and providing foods and beverages at the expenses of the institution are unacceptable, it is informed that action will be made correctly in the future and decision will be taken after looking into this matter.

(c) The company had a stock of 56 metric tons of expired chemical fertilizers and 26.7 metric tons of sweeping fertilizer as at 31 March 2023 and the company has not been implemented a proper marketing plan regarding the disposal of this amount of fertilizer.

Disagreed. A small amount of fertilizer as sweeping fertilizer is removed from the stock as it cannot be released directly during the operational activities of the institution. However, the sweeping fertilizers collected in such a way since some time are disposed by informing the Ministry of Agriculture and receiving a financial benefit under the approval of the Board of Directors. However, from the stock has not been removed several times as expired fertilizer. An approval had been obtained for the production of hybrid fertilizers or other economically productive work after verification of existing sweeping fertilizer by stock

A proper marketing plan should be used for available fertilizers.

verification board through the Board Paper No. 313/2023 dated 2023.08.06. The 176,087 metric tons of fertilizer has been stored in the Hunupitiya warehouse complex during operational activities from 2023.07.10 until today and the quantity that has turned into sweeping fertilizer during that supply is a very small amount. A small amount of fertilizer is removed as sweeping fertilizer from the stock compared to the operations of any company in this type of industry.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>The opportunity has been given to register fertilizer suppliers from regional warehouses and purchase organic fertilizers from them through the internal circular No.2021/GM/02 dated 15 September 2021 of the company under the Eco-friendly fertilizer purchase programme in conjunction with the implementation of government fertilizer policy after banning the import of chemical fertilizers. It was also observed that the quantity of fertilizers which purchased accordingly are sold slowly and 315.28 metric tons of fertilizer costing Rs.7,510,800 and 586.86 metric tons of fertilizer which value was not submitted to the audit were unsold and piled up in Hunupitiya main warehouse and regional warehouse as at 31 march 2023.</p>	<p>Agreed. The purchase and distribution of organic compost fertilizer has been carried out due to the suspension of the import of chemical fertilizers based on a policy decision of the government. Action has been taken to sell that purchased quantities of fertilizers through the regional fertilizer warehouses of the company located all over the island and a buyer had been selected through the procurement method by publishing a newspaper advertisement to sell the remaining quantity of fertilizer.</p>	<p>A proper marketing plan should be used for available fertilizers.</p>

4. Accountability and good governance

4.1 Presentation of financial statements

Audit Observation	Management Comment	Recommendation
<p>(a) Although the all public companies should prepare and submit the financial statements to the Auditor General within 60 days of the end of the financial year as per the Paragraph 6.6 of the Operational Manual issued with Public</p>	<p>Agreed. The final accounts of during the year under review has been done only by the ERP system of the company and simultaneously, manual system of the accounts has not been done. The cost of sale was abnormally value in</p>	<p>Action should be made to submit financial statements as per circular instructions.</p>

Enterprise Circular No.01/2021 dated 16 November 2021 of the Secretary of the Treasury, the financial statements of year 2021/2022 had been submitted to the Auditor General after 447 day of the end of the financial year. getting final accounts through the ERP system. It had been caused by not correctly accounting the cost of sales related to the values of the stock purchased from the year 2017 while calculating the stock by the ERP system. Therefore, this time was spent due to prepare again the accounts manually after informed the Audit Committee and the Board of Directors about this and make comparisons and submit the accounts.

- (b) Although the Annual 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 of the year 2022 has not been tabled in Parliament by the date of the audit due to the delay in submitting the financial statements of the year 2021/2022 to the Auditor General. Agreed. The annual report for the year 2022 has not been submitted so far since the audit report of the company for the year 2022 should also include in the annual report. Action should be taken as per circular instructions.

4.2 Effectiveness of Management Information System

Audit Observation	Management Comment	Recommendation
Although the cost of Rs.36,514,026 and an annual service maintenance cost of approximately Rs.1,385,639 had been incurred by the company from year 2017 for the establishment of an Enterprise Resource Planning System (ERP System), the aforesaid system has not been not used to cover the entire accounting process of the company. Furthermore, due to the fact that the systems that were installed are also operating without strong controls, the	Disagreed. The Enterprise Resource Computer Software installed in our company has been operated since 01 January 2017 in our company and currently all administrative and operational activities are being done through this system. Accordingly, this software is being implemented as integrated software in the company. There, all the activities has been done jointly together all the divisions which procurement, distribution, sales, revenue, payments, salaries, accounts and cost, industrial, laboratory and human resources. Adequate training on Enterprise Resources	Action should be taken to use the system covering the entire accounting process of the company and establish the strong internal controls.

company has been failed to reach the desired results from the above installation cost that incurred and the annual maintenance cost.

Planning (ERP) software system was provided to all employees for more than 04 years and daily training requirements are being provided by employees working in the Information Technology division continuously until now. Furthermore, the role played by Enterprise Resource Software was also presented to the Audit and Management Committee held on 2018.07.30 and officers were praised there. Also, the stock related computer operations of warehouse No.03 has been checked under the supervision of the external auditors and all stocks has been issued until the stock balances in the warehouse are zero and stock balances in the computer system has been confirmed to be corrected. Based on the reports obtained from Enterprise Resource Software has been done while carrying out stock verifications in all warehouses for accounting year 2021/2022. Accordingly, all the divisions and the entire process in the organization have been covered through the ERP system.