

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Fertilizer Company Ltd (“Company”) for the three months ended 30 June 2024 comprising the statement of financial position as at 30 June 2024 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2024, 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	Management's Comments	Recommendation
(a) Although the assets and liabilities or income and expenses should not be offset in the financial statements in accordance with paragraph 32 of Sri Lanka Accounting Standards 01, an overdraft balance of Rs.104,233,642 in one bank account was offset against other bank account balances and was shown under current assets in the financial statements.	Agreed. In future accounting years, action will be taken not to offset assets and liabilities or income and expenses in the financial statements.	According to the standard, assets and liabilities or income and expenses should not be offset in financial statements.
(b) Although all liabilities exceeding one year should be shown under non-current liabilities in the statement of financial position in accordance with paragraph 69 of Sri Lanka Accounting Standards 01, a creditor balance of Rs.21,629,467 exceeding one year had been accounted under current liabilities.	Agreed. The creditor balance of Rs.21,629,467 included in the current liabilities in the statement of financial position is a balance that has exceeded the period of one year and it will be presented under non-current liabilities in the future.	Financial statement items should be presented and classified in accordance with the standard.
(c) Although cash inflows and cash outflows arising from financing and investing activities should be presented separately in accordance with paragraph 21 of Sri Lanka Accounting Standards 7, The cash flow from financing activities in the cash flow statement had identified a value of Rs.1,973,033,939, which was the net balance of long-term and short-term loan receipts and payments.	Disagree. The cash flow statement shows the amount of Rs.1,973,033,939 as the value of loan paid during the year under Note 26, not the net cash flow from long-term and short-term loan receipts and payments generated from financing activities.	Financial statement items should be presented and classified in accordance with the standard.
(d) In accordance with paragraph 112 of Sri Lanka Accounting Standards No. 1, there was no disclosure in the financial statements regarding lawsuits filed against external parties to recover losses incurred by the Company and lawsuits filed by external parties against the Company.	Agreed. Action will be taken to disclose in the financial statements in the next accounting year.	It should be disclosed in the financial statements regarding the lawsuits against the company.

1.5.2 Accounting Deficiencies

Audit Observation	Management's Comments	Recommendation
(a) Although the depreciation value of the assets of buildings, machinery, office equipment, computer equipment and laboratory equipment for the period was Rs.12,295,373, Rs.228,830, Rs.1,494,531, Rs.2,134,614 and Rs.857,615 respectively, the profit for the period had been understated by Rs.1,714,791 due to the inclusion of values in the profit/loss account after adjusting the values related to the correction of errors in the previous year.	Agreed. Adjustments will be made in the next accounting year.	Depreciation over the period should be accurately identified and accounted.
(b) Although the interest income receivable on treasury bills for the period under review was Rs.28,400,025, since it was recorded as Rs.23,763,204 in the financial statements, the profit for the period and current assets had been understated by Rs.4,636,821.	Agreed. Adjustments will be made in the next accounting year.	Income related to the period should be accurately identified and accounted.
(c) Although the interest income on fixed deposits for the period under review was Rs.92,034,223 according to the schedule for calculating interest income on fixed deposits, since it was understated by Rs.83,089,542 in the financial statements, the profit for the period and current assets had been understated by Rs.8,944,681.	Agreed. Adjustments will be made in the next accounting year.	Income related to the period should be accounted correctly.
(d) As the balance of Rs.166,919,973 of the interest receivable account as at 30 June 2024 was included in the value of the Treasury Bills, the Treasury Bills had been overstated by that amount.	Agreed. Adjustments will be made in the next accounting year.	Assets should be accurately identified and accounted.
(e) Although the amortization of the Company's intangible assets was completed by 31 March 2024, an adjustment of Rs.396,479 was made to profit before tax as amortization of intangible assets in the cash flow inflows under operating activities in the statement of cash flows.	Agreed. Adjustments will be made in the next accounting year.	Only expenses related to the period should be identified and accounted.

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| (f) | As the amount of Rs.1,988,041, which was adjusted to correct an accounting error in the previous year was adjusted to the profit before tax in the cash flow statement, the cash flow from operating activities had been overstated by that amount. | Agreed.
Adjustments will be made in the next accounting year. | Prior year adjustments should be made correctly in the cash flow statement. |
| (g) | Due to the understatement of the difference in deposit and advance account balances by Rs.285,252 in the working capital adjustment in the cash inflows under operating activities in the cash flow statement, cash inflows from operating activities had been overstated by that amount. | Disagree.
The difference between deposit and advance accounts is deferred interest income. This difference has arisen due to that adjustment. | Working capital changes should be adjusted correctly. |
| (h) | Due to the accounting of installment payments of Rs.1,976,992,849 during the 3-month period of April, May and June 2024 related to the settlement of the company's long-term loan in the short-term loan account, current liabilities in the financial statements had been understated by that amount and non-current liabilities had been overstated.. | Disagree.
The amount of long-term loan for the period from 01 April 2024 to 31 March 2025 has been transferred to the short-term loan account. Since short-term loans are shown under current liabilities, the current liabilities have not been understated by this amount due to the accounting of these installment payments of Rs.1,976,992,849 in the short-term loan account and nor had non-current liabilities been overstated. | Liabilities should be classified correctly. |
| (i) | As the value of Rs.2,000 provided by the government for a 50 kg bag of mixed fertilizer sold by the company as per an agreement entered into with the Tea Small Holdings Development Authority is not included in the company's financial statements as sales and deduct it as fertilizer subsidy in the calculation of cost of sales, the sales value for the period had been understated in the financial statements by Rs.38,052,000 due to the. | Disagree.
As per the agreement reached with the Tea Small Holdings Development Authority, the Tea Board had provided a subsidy of Rs.120 million to the company in February 2024 at Rs.2,000 per 50 kg bag. Invoices are issued to the Tea Small Holdings Development Authority. Accordingly, the subsidy amount equivalent to the number of bags of fertilizer issued on the invoice is removed from the subsidy | Income and expenses related to the period should be accurately identified. |

receivable account at the end of the accounting period. In this case, since no invoice is issued for the subsidy amount of Rs.2,000, no adjustment is made to the sales account. When receiving subsidy money through the Tea Board, a VAT invoice is not issued and the subsidy money has been provided to us with the approval of the Cabinet. However, since the remaining amount of the tea fertilizer value is obtained from the Tea Small Holdings Development Authority and separate VAT invoices are issued only for that and it is accounted as sales. Since VAT is not charged on the subsidy amount, action have been taken to deduct it from the cost of sales rather than recording it as sales.

1.5.3 Un-reconciled Control Accounts and Records

Item	Value as per financial statements Rs.	Value as per the corresponding reports Rs.	Difference Rs.	Management's Comments	Recommendation
Interest Income	120,901,686	130,446,238	9,544,552	Agreed. Adjustments will be made in the next accounting year.	Income related to the period should be accounted accurately.
Claims	1,009,100	805,910	203,190	Disagree. The service period of the officer holding S.N.863 who left the service under the compulsory retirement compensation scheme is 17 years. In this case, the	The balances included in the financial statements should be compared with the corresponding records.

compensation amount has been calculated as Rs.805,910 by considering the service period as 11 years. However, after his service period was re-confirmed, the correct compensation amount of Rs.1,009,100 calculated in relation to that had been paid.

1.5.4 Unauthorized Transactions

Audit Observation	Management's Comments	Recommendation
(a) Rs.848,248, which was shown as a balance receivable from People's Bank as of 31 March 2024 had been written off from the books and the related approvals were not submitted for audit.	Agreed. Action will be taken to obtain the relevant approval.	Necessary approvals should be obtained to write off receivable balances from the books.

1.5.5 Written evidence not available for Audit

Audit Observation	Management's Comments	Recommendation
(a) Since the information regarding Rs.62,181,400, which has been accounted for since 2018 as subsidy to be received from the Treasury for fertilizer for other crops was not submitted to the audit, the audit could not confirm the accuracy of that balance.	Agreed. An application has been made to the Ministry of Agriculture and the National Fertilizer Secretariat for the receipt of this money through the 2025 commitment and liabilities.	Balance confirmations should be obtained.
(b) The loan balances of Rs.61,408,774, which were due to the company from 224 Agrarian Service Centers, which had not been collected for a period of 02 to 03 years, had not been confirmed by the relevant parties as of the date of the audit.	Agreed. Since these financial statements were submitted for a three months period, action will be taken to obtain balance confirmations in the next accounting year.	The balance should be confirmed and recoveries should be made.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Management's Comments	Recommendation
(a) The Company had not taken action to recover the total receivable amount from various parties on the sale of fertilizer, which was overdue by more than 03 years, amounting to Rs.56,002,544 and the balance of Rs.87,380,655, which was overdue by more than 10 years even at the end of the period under review.	Agreed. In the case regarding the receivable amount of Rs.42,952,277 from these liquid fertilizer distributors, a negative balance is shown as the amount of Rs.60,000 is an amount that should be returned to a distribution agent based on a court decision. Action will be taken to return that amount. Although balance confirmation letters are sent for receivable loan balances over 10 and 6 years from authorized dealers, very few confirmation letters are received. Also, it is not possible to verify the party that received the amount of Rs.347,119. Therefore, this information will be submitted to the Board of Directors for approval and further action will be taken. The two state institutions mentioned here, the Janatha Estates Development Board and the State Plantation Corporation, have been informing the Ministry Secretary and continuously sending letters to obtain the funds. A complaint has been submitted to the Criminal Investigation Department regarding the money owed to the Ampara Deputy Director of Agriculture and investigations are underway. In addition, investigations were carried out in connection with the ongoing	Receivable amounts should be recovered.

	collection of monies owed to the Pelawatte Sugar Company. Also, it has been mentioned in the application for the 2025 commitment and liabilities regarding the money due from the Ibbagamuwa Paddy Research and Development Institute.	
(b)	The receivable balance of Rs.7,933,189 from the warehouse officers to stock shortages had not been recovered by the audit date. Agreed. A case has been filed in the Gampaha District Court for the shortage of Rs.7,694,938.31 of the Pottuvil Stock Officer and the order is yet to be given. An amount of Rs. 2,144,259 has been recovered from the stock shortage at the Hunupitiya warehouse complex, and approval will be obtained for the amount of Rs.238,251 that remains uncollected and action will be taken to remove it from the accounts.	Action should be taken to collect outstanding balances without delay.
(c)	The company had failed to recover the receivable amount of Rs.82,986,150 from a private company for the loss incurred in relation to organic liquid fertilizers purchased by the company in 2017 in terms of the agreement entered into with that company, even as of the date of the audit. Agreed. Legal action has been taken to recover this money.	Action should be taken to recover the receivable balances without delay.
(d)	Although the financial statements included a shipping guarantee receivable of Rs.3,258,480 charged by the bank from the company's bank account in relation to the import of a stock of urea fertilizer in the year 2021, action had not been taken to recover that value. Agreed. This is a transaction that took place during the COVID pandemic and further action will be taken by making discussion with the bank.	Receivable balances should be collected.

1.6.2 Payables

	Audit Observation	Management's Comments	Recommendation
(a)	The total value of Rs.18,043,059, which was recovered from time to time since 2014 after filing a case by the company due to various irregularities committed by the stock officers and sales executives of the regional fertilizer warehouses, had not been remitted to the treasury.	Agreed. Since there are values to be remitted to the Treasury as well as received from the Treasury, this matter will be discussed and further action will be taken.	The recovered values should be remitted to the Treasury.
(b)	Rs.83,000,000, which was to be remitted to the Treasury in relation to the acquisition of 1,333 MT of fertilizer sold under the Fertilizer Subsidy Scheme (TSP) by the Company, had not been remitted by the end of the period under review.	Disagree. The company has not taken action to remit the amount of Rs.83 million allocated for the payment to the Treasury by taking over 1,333 MT of TSP fertilizer imported under the fertilizer subsidy scheme because approval for the takeover has not been received yet.	The value of fertilizer added to the company's stock under the subsidy scheme should be remitted to the treasury.
(c)	Rs.9,450,399 had not been remitted to the Treasury for urea fertilizer imported under Indian Credit Line and sold through Agrarian Service Centres since 2023.	Agreed. Requests have been made to check with the Department of Agrarian Development in this regard and further action will be taken after confirmation.	The value of the Indian Credit Line for fertilizer should be remitted to the Treasury.
(d)	The refundable deposits of Rs.3,020,530 had been presented as a current liability for a long time without taking action to recognize it as income with the approval of the Board of Directors if the contractors who provided services to the company during the period from 01 to 07 years do not claim.	Agreed. After informing each contractor and verifying the balance, adjustments will be made to the income with the approval of the Board of Directors.	If the receivable amount is not claimed after verifying the amounts, it should be recognized as income of the company.

2. Financial Review

2.1 Financial Results

The operating result for the period under review was a loss of Rs.475,536,320 while the corresponding profit for the previous three months was Rs.35,269,729 (previous year profit/4). Accordingly, a decline of Rs.440,266,591 was observed in the financial result. This decline was mainly due to the compensation paid to employees who left the service under the Compulsory Retirement Compensation Scheme.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management's Comments	Recommendation
(a) It was observed during the annual stock verification held in March 2025 that the majority of fertilizer stock of unsold organic fertilizer purchased in 2021/2022 under the Eco-Friendly Local Fertilizer Purchase Project was in the regional warehouses of Ampara, Horowpathana, Madawachchiya, Nochchiyagama, Badulla, Batticaloa, Dehigahalanda, Kondavil, Hingurakgoda and Embilipitiya. As at 08 May 2025, the amount of unsold compost fertilizer remaining is 2,487 MT and its value is Rs.32,835,355. However, the actions to be taken regarding this fertilizer had not been specifically identified as of the date of the audit.	Agreed. The Committee Report mentioned in the query was also discussed at the Audit and Management Committee held on 11.06.2025 at the Ministry of Agriculture and it is expected that, further action will be taken in accordance with the decisions taken there.	Effective action should be taken regarding the amount of compost fertilizer and unnecessary costs should be minimized.