

## **REPORT OF THE AUDITORS**

### **TO THE MEMBERS OF THAMANKADUWA AGRO FERTILIZER COMPANY LIMITED**

We have audited the Balance Sheet of Thamankaduwa Agro Fertilizer Company Limited, as at 31 December 2002 and the related statement of Income for the year then ended, together with the accounting policies and notes.

#### **Respective Responsibilities Of Directors And Auditors**

The directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements based on our audit.

#### **Basis Of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the

directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion, so far as appears from our examination, and to the best of our information, and according to the explanations given to us, the Financial Statements do not give a true and fair view of the financial position of the Company as at 31 December 2002 and of the results of its operations for the year then ended, in accordance with Sri Lanka Accounting Standards, for the reasons that follow:

#### **1. Accounting Policies ( SLAS 3.20 )**

Management should select and apply an enterprise accounting policies, so that the financial statements comply with all the requirements of each applicable Sri Lanka Accounting Standard. Where there is no specific requirement, Management should develop policies to ensure that financial statements provide information that is –

( a ) Relevant to the needs of the users

( b ) Reasonable, in that they

( i ) Represent faithfully the results and financial position of the enterprise

( ii ) Reflect the economic substance of events and transactions and not merely their legal form

The Company's accounting policies, notes 1.1, 1.2 and 1.3 are not in accordance with Sri Lanka Accounting Standards.

## 2. Fixed Assets

The title deeds to the undermentioned property was not made available to us.

Polonnaruwa Land	Rs 350,000 ( Book Value )
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## 3. Current Assets

The bank balance is not included as a current asset in the total of Rs 1,114,962 ( Accounting Policy 1.2 ). However the Thamankaduwa People's Bank current account balance at 31.12.2002 was Rs 34,028,909 and is reflected as a current asset at Ceylon Fertilizer Company Limited.

## 4. Current Liabilities

Current liabilities total is Rs 9,016,932 ( Accounting Policy 1.3 ). These do not include

( 1 ). Audit fees,

( 2 ) G.S.T. payable on commission income ,

( 3 ) Accrued expenses as at the Balance Sheet date are not reflected in the accounts since these are shown as directly payable to Ceylon Fertilizer Company Limited. These amounts are payable to third parties and should be credited to Ceylon Fertilizer Company Limited only when they are paid.

## 5. Non Current Liability

The gratuity payable to the Thamankaduwa employees is not reflected in the Balance Sheet. It is reflected as a current liability at Ceylon Fertilizer Company Limited.

## 6. Income Statement

The net loss for the year Rs 8,198,269 is arrived at, after crediting Rs 6,059,328 as commission received from Ceylon Fertilizer Company Limited on the undermentioned basis.

Straight Fertilizer	Rs 450/= per M.T.
Mixed Fertilizer	Rs 600/= per M.T.

These rates have not been revised since 1992, However the selling price of urea alone has increased for Rs 7,000 to Rs 13,525 during the year 2002. Further, urea accounts for more than 50 per cent in volume and value of cash and credit sales.

Under the circumstances, the net loss for the year Rs 8,198,269 and the accumulated loss of Rs 30,162,544 ( shown on the Balance Sheet ) would appear to be misleading, especially in view of the fact the Ceylon Fertilizer Company Limited shows a net profit and accumulated revenue reserves ( on the Balance Sheet )

This would be extremely misleading to a would be investor.

Further comments in this regard, appear in our management letter.

## **7. Cash Flow Statement ( SLAS 9 )**

There was no Cash Flow Statement.

Further comments in this regard appear in our management letter.

## **8. Contingent Liabilities**

A settlement is due to 3 dismissed employees, who withdrew labour tribunal cases against the Company ( The estimated outflow is in the region of Rs 1 million ). In addition 12.5% G.S.T. is payable on commission income from the inception of the G.S.T. Act.

## **Directors' Interests In Contracts With The Company**

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 December 2002, other than the Chairman Mr. B.S. Jagath Perera and Working Director Mrs. Kalyani Satharasinghe of Thamankaduwa Agro Fertilizer Company Limited, who are also Chairman and Director of Ceylon Fertilizer Company Limited respectively. Thamankaduwa Agro Fertilizer Company Limited acts as consignment agent for Ceylon Fertilizer Company Limited.

## **CHARTERED ACCOUNTANTS**

**Colombo: 14 July 2003**

## **THAMANKADUWA AGRO FERTILIZER COMPANY LIMITED ACCOUNTING POLICIES**

### **1. General**

#### **1.1 Accounting Convention**

Financial Statements are prepared in accordance with Sri Lanka Accountig Standards laid down by the Institute of Chartered Accountant of Sri Lanka. No adjustments have been made for inflationary factors affecting the Financial Statements. Where appropriate the policies are explained in the succeeding notes.

### **1.1.1 Taxation**

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

However, no provision has been made in these financial statements for Income Tax in view of adjusted tax losses of the company.

### **1.1.2 Events Occurring After The Balance Sheet Date**

All material post Balance Sheet events have been considered and where appropriate adjustments to or disclosures have been made in the Financial Statements.

## **1.2 Assets And Bases Of Their Valuation**

Assets classified as current assets on the Balance Sheet, Cash and Bank Balances and those which are expected to be realised in cash during the normal operating cycle or within one year from the Balance Sheet date, which ever is shorter.

The Ceylon Fertilizer Company Limited since its incorporation has been functioning on the basis that the stock of fertilizer and packing materials. As well as other items of working capital at Thamankaduwa Agro Fertilizer Company Limited, are to be considered as property of Ceylon Fertilizer Company.

### **1.2.1 Property, Plant And Equipment**

Property, Plant and Equipment are stated at cost or revaluation less accumulated depreciation.

## **THAMANKADUWA AGRO FERTILIZER COMPANY LIMITED ACCOUNTING POLICIES**

### **1.2.2 Depreciation**

Depreciation is not provided for Land. All other Property, Plant and Equipment are depreciated on the straight line basis. Estimated useful lives are as follows:

Building	Over 40 years
Plant & Machinery	Over 10 Years
Mixing Plant	Over 05 Years
Office Furniture	Over 10 Years
Office Equipment	Over 03 Years
Workshop Tools	Over 05 Years

Lab Equipments	Over 03 Years
Other Equipments	Over 03 Years
Motor Vehicles	Over 05 Years
Bicycles	Over 03 Years
Canteen Equipment	Over 05 Years

Depreciation is not provided on additions but full year of depreciation is provided on disposal.

### **1.3 Liabilities & Provision**

Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the Balance Sheet date. Non current liabilities are those balances that fall due for payment after one year from the balance sheet date. All known liabilities have been accounted for in preparing the Financial Statements.

### **1.4 Income Statement**

#### **1.4.1 Commission Income**

This represent the commission receivable on the Tonnage sold on the consignment basis. The basis of payment is as follows:

Straight Fertilizer	Rs 450/- per MT
Mixed Fertilizer	Rs 600/- per MT

All expenditure incurred in the acquisition or improvement of property, plant and equipment of a permanent nature in order to carry on or increase the earning capacity of the business has been treated as capital expenditure.

Gains or losses of a revenue nature o the disposal of property, plant and equipment have been accounted for in the Income Statement.

14 July 2003

The Chairman  
Thamankaduwa Agro Fertilizer Co.Ltd  
Polonnaruwa

Dear Sir

**Management Letter**

**Audit Year Ended 31<sup>st</sup> December 2002**

**(I) Financial Results**

	<b>2002</b>		<b>2001</b>		
	<b>Rs.'000</b>	<b>%</b>	<b>Rs.'000</b>	<b>%</b>	
Commission	6,059		5,154		
Other Income	1,008		528		
	-----		-----		
	7,067	100	5,682	100	
Less : Direct Expenses	4,189	59	2,758	49	
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Gross Profit	2,878	41	2,924	51	
<b>Less : Expenses</b>					
Administration & Estab.	9,959	141	8,650	152	
Selling & Distribution	1,117	16	656	11	
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	11,076	157	9,306	163	
	-----	----	-----	----	
	8,198	116	6,382	112	Net Loss
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Notwithstanding increase in total commission and other income by Rs 1.387m, as a result of increased activity, there has been an increase in the net loss of Rs 1.816m. This is mainly due to the rate per ton commission received being unchanged for the past 10 years as follows :

Straight Fertilizer	Rs 450/= per M.T.
Mixed Fertilizer	Rs 600/= per M.T.

We suggest that the commission should be based on selling price of fertilizer and that this matter be reviewed afresh. Otherwise increased activity at Polonnaruwa would result in further reductions in the gross profit percentage, which for 2002 was a reduction of 10 per cent. We are also of the opinion, that direct expenses on fertilizer Rs 4.189 million should have been charged to the consignment account and not borne

by Thamankaduwa A.F.C. Since these activities are outside those of a commission agent. Based on the above comments the agreement / understanding with Ceylon Fertilizer Company should be reviewed.

## 2. Fixed Assets

Most of the fixed assets of the Company are fully depreciated. Some of these are listed below ( at written down values ).

	Rs.	Observations
1. Workshop Tools	252	
2. Other Equipment	42	
3. Canteen Equipment	30	
4. Motor Vehicles	14	
5. Lab Equipment	10	Completely Idle
6. Bicycle	2	
7. Mixing Plant	1	Should be revalued ( SLAS 18 )

Revaluation under SLAS 18, should take place, once in 3 – 5 years, although the last revaluation was done in 1992 ( 10 years ago ). We were not provided with the optimum capacity of the plant, presently valued at one rupee.

## 3. Depreciation Of Fixed Assets ( S.L.A.S. 1.43 )

The depreciable amount of an item of Property, Plant and Equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the assets economic benefits are consumed by the Enterprise. The mixing plant was not depreciation, although its mixing capacity was 527 MT and was in use during the year.

## 4. Cash Flow Statement

We have prepared a cash flow statement, using the indirect method based on the information available. The Company should report cash flows from operating activities using the direct method. This method provides information, which may be useful in estimating future cash flows, and is not available under the indirect method.

## 5. Insurance

5.1 Fixed assets costing Rs 56 million ( W.D.V. Rs 35 million ) had been insured for only Rs 27 million. We suggest that the insurance cover for fixed assets be increased.

5.2 The insurance cover for cash in transit was Rs 800,000. However on the day of physical verification the cash was in excess of Rs 1.3 million. We suggest the insurance cover for cash also be increased.

## 6. Unexplained Variations

The undermentioned variations exist when the company's accounts are compared with Ceylon Fertilizer Company Ltd. with regard to current account transactions. In view of this we cannot understand how the inter company current accounts were agreed.

Description Of Account		CFC Rs.'000	TAFC Rs.'000	Difference Rs.'000
1. Accrued Expenses	Cr.	3,098	2,361	737
2. Sundry Expenses	Cr.	1,290	1,762	472
3. Returned Cheques	Dr.	1,293	530	763
4. Income Tax	Dr.	285	-	285

The Ceylon Fertilizer Company Ltd. schedules should incorporate the adjustments made by Thamankaduwa AFC. and vice versa.

Yours faithfully

**HULUGALLE WIKRAMANAYAKE & CO.**

**THAMANKADUWA AGRO FERTILIZER COMPANY LTD**  
**NOTES TO THE ACCOUNTS**

**Note 1 : Property, Plant & Equipment**

<b>Assets</b>	<b>Dep. Rate</b>	<b>Cost / Revaluation Amount As At 1.1.2002</b>	<b>Additions/ Disposals</b>	<b>Cost / Revaluation Amount As At 1.1.2002</b>	<b>Accumulated Depreciation As At 1.1.2002</b>	<b>Depreciation For The Year</b>	<b>Accumulated Depreciation As At 31.12.2002</b>
		<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Land	-	350,000.00	-	350,000.00	-	-	-
Building	2.5%	47,500,000.00	-	47,500,000.00	10,984,375.00	1,187,500.00	12,171,875.00
Mixing Plant	20%	3,500,000.00	-	3,500,000.00	3,499,999.00	-	3,499,999.00
Plant & Machinery	10%	805,155.00	-	805,155.00	688,866.00	66,356.05	755,222.05
Office Equipment	33.3%	706,672.50	3,180.00	709,852.50	706,104.00	-	706,104.00
Office furniture	10%	230,776.00	5,160.00	235,936.00	211,487.84	17,129.20	228,617.04
Workshop Tools	20%	16,789.00	-	16,789.00	16,537.00	-	16,537.00
Lab Equipment	33.3%	34,400.00	-	34,400.00	34,390.00	-	34,390.00
Other Equipment	33%	30,965.00	-	30,965.00	30,923.00	-	30,923.00
Motor Vehicle	20%	2,995,000.00	-	2,995,000.00	2,994,986.00	-	2,994,986.00
Bicycle	33%	3,485.00	-	3,485.00	3,483.00	-	3,483.00
Canteen Equipment	20%	6,300.00	-	6,300.00	6,270.00	-	6,270.00
<b>Total</b>		<b>56,179,542.50</b>	<b>8,340.00</b>	<b>56,187,882.50</b>	<b>19,177,420.84</b>	<b>1,270,985.25</b>	<b>20,448,406.09</b>

**W.D.V.**  
**As At**  
**31.12.2002**

**Rs.**

350,000.00  
35,328,125.00  
1.00  
49,932.95  
3,748.50  
7,318.96  
252.00  
10.00  
42.00  
14.00  
2.00  
30.00  
35,739,476.41