Lanka Phosphate Limited – 2017/2018

The audit of financial statements of the Lanka Phosphate Limited (State Company) comprising the statement of financial position as at 31 March 2018 and the income statement, statement of changes in equity and cash flow statement for the year then ended and summary of significant accounting policies and other explanatory 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. My observations pertaining to the operations of the company for the year under review that I wish to bring to the attention of the parliament as per the provisions in Article 154(6) of the constitution of the Democratic Socialist Republic of Sri Lanka have been included in this report.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

The following observations are made.

(a) Even though the continuously using 09 assets costing Rs.106, 561,153 were completely depreciated at the end of the year under review, the effective life time of those items had not been reviewed. Therefore the fair value of non-current assets had not been disclosed in the financial statements.

(b) As per the depreciation policy of the company, the carrying value of certain buildings, electrical equipment and plant and machinery net value should be zero at the end of the year under review. However, net value of such assets amounting to Rs.14, 198,924 shown in the financial statements as at the end of the year under review.

(c) Rs.10, 458,896 had been allocated for the depreciation at the end of the year under review, exceeding the cost of some buildings, electrical equipment and plant and machinery. As a result of it, the value of non-current assets had been understated by similar amount at the end of the year under review. Further, due to erroneous calculation, the depreciation on miscellaneous assets had been overstated by Rs.917, 410 for the year under review.

(d) Due to incorrect treatment of expenses in the tax computation for the year of assessment 2017/2018, the tax provision shown in the financial statements of the year under review had been overstated by Rs.4, 100,596.

(e) The capital expenses of Rs.346, 601 for the renovation of buildings, had been settled as recurrent expenditure without capitalizing. Therefore, the profit and the assets for the relevant year, mentioned in the financial statements, had been understated from that amount.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the Lanka Phosphate Limited as at 31 March 2018 and its financial performances and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on other legal and regulatory requirements.

As required by section 163(2) of the companies Act No. 07 of 2007, I state the followings:

(a) The basis of qualified opinion and scope and limitations of the audit are as stated above.

(b) In my qualified opinion:

- Except for the influence from the facts mentioned in the basis for qualified opinion paragraph, I have collected the required information and explanations for the auditing and as per the investigation of mine, the company had been maintained formal accounting reports.

- The financial statements of the company comply with the requirements of section 151 of the companies Act No 07 of 2007.

2.2 Accounts Receivable and payable

In the debtor balance of Rs. 4,569,250, receivable from the CIC Company, a balance of Rs.2, 289,250 had remained unsettled over 05 years.

2.3 Non- compliance with laws, rules, regulations and management decisions.

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules and Regulations	**Non- Compliance**
Financial Regulations of Democratic Socialist Republic of Sri Lanka	
(a) Financial Regulation 395	Bank reconciliation statements, relevant to a current account had not been prepared.
(b) Treasury circular No.842 dated 19 December 1978	In terms with the circular, fixed assets register had not been prepared.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the company for the year ended 31 March 2018 was a surplus of Rs.25, 305,645 as against the deficit of Rs.10,533,931 of the previous year. Accordingly there was a growth of Rs.35,839,576 in the financial results. The increase in production and sales had mainly effected to the above increase.

3.2 Analytical Financial Review

	2016/2017	**2017/2018**
Current Ratio	1.8	1.11
Gross Profit Ratio (Per cent)	32	39
Net Profit Ratio (Per cent)	(8)	8

The following observations are made in this regard.

(a) Inclusion of fixed deposits and short term Treasury bill balance of Rs.236,738,858 in current assets was the main reason for the existence of 1:11 ratio in the current assets.

(b) Increase in sales and production had affected for the increase in net profit ratio and the inclusion of production overhead cost of Rs.19, 129,460 in the administration expenses was the reason for the increase in gross profit ratio.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

Though the action plan for Rs.38.9 million had been prepared for the objectives such as increasing the production and sales, saving of foreign exchange, providing new market opportunities, conduct of new research and providing high quality service and though performance statement had been prepared for it, information about financial performance had not been presented. Even though the grants of Rs.20 million had been allocated for the 10 programs of the action plan, no physical progress had been achieved within the year.

4.2 Management Activities

(a) (i) In accordance with the information of Geological Survey and Mines Bureau, it is revealed that the phosphate deposit prevailing in 06 sq. km, is in a capacity of 60 million metric tons. This deposit had not been used in maximum capacity for the development of the country and though project proposals had been presented by the phosphate company, in several times those proposals could not been carried out due to the inability to obtain the capital required.

(ii) In 2018, the company together with the Australian Seashores Fertilizer (Pvt) Ltd obtained a technical evaluation about the phosphate deposit. Though the preliminary work of the project on producing single super phosphate by gaining metric tons 300,000 of Eppawala Rock phosphate had already been commenced, this project could not be implemented since the approval had not been granted by the cabinet and the Treasury.

(iii) In 2018, US dollars 1,276,500 had been spent on the importation of super phosphate in spite of having the resources and ability to produce it in the country and in 2017, Rs.100, 701,249 had been spent on the importation of sulfuric acid for other industries.

(b) According to the project report related to coconut fertilizer, the annual coconut fertilizer income was Rs.72 million and the net profit was Rs. 10 million, direct sales income was Rs.12.75 million and the net profit was Rs.2.12 million. In addition to that, with the intention of increasing the annual income by 10 per cent annually and acquiring a 10 per cent share from the market with a long term supply of 3000 metric tons, the production and sales of this project had been commenced since 14 February 2014. Though, the capital expenditure related to it was Rs.21, 226,633, except in 2015/2016, this had been operated at a loss in all the other years.

4.3 Idle or Underutilized assets

The following observations are made.

(a) Spare parts valued at Rs.43, 453,115 including an (mill base) equipment of Rs.11,513,434 had been bought for the installation of a new mill machine at the Eppawala premises in 2014. Nevertheless, that equipment had not been installed until the 31 July, 2018. Therefore a stock of spare parts of Rs.21, 866,371 had remained, for the mill base equipment of Rs.11, 513,434, which cannot be used for any other purpose, and amount of Rs.2, 302,678 had been provision for impairment annually.

(b) The hydraulic system of the wheel loader, which was purchased at a cost of Rs.7, 901,000 on 3 February, 2008 for the excavations by the Lanka Phosphate Company, had broken down and inactivated at the 129th machine hours and had been inactivated for the whole period from 2015 to 2017. Due to reason of ceaselessly breakdowns which had not used in fruitful had existed in underutilized.

(c) The crusher machine of Rs.34, 654,178 which was engaged for the production process since August 2016, had been inactivated due to the technical errors when operating. Accordingly from August 2016 to July 2018, due to the ceaselessly technical errors and usage difficulties, it was used only for 15 months and the machine was existed in underutilized. The production was a lower amount as 9,482 metric tons during that period.

5. Sustainable Development

Achieving of Sustainable Development Goals

The following observations are made.

(a) Each government institute should perform in terms with the Unites Nation's agenda year-2030 on sustainable development and the phosphate company had acknowledged how to perform the task under their scope relevant to the year under review.

(b) With the above acknowledgment about the agenda year-2030, the phosphate company had identified the objectives which should be achieved according to their scope, as producing ASP, Coconut fertilizer, rubber fertilizer and compost.

(c) When achieving the sustainable development goals without having a proper coordination with some institutes, and when planning and pre-preparing to reach the goals, it was observed that the process was on a weak state.

6. Accountability and Good Governance

6.1 presentation of financial statements

In terms of public Enterprises Circular No. PED/27 of 27 January 2005, though the financial statements should be presented to the auditor general by each state company within 60 days of closure of the financial year, the annual financial statements have been presented on 21 June, 2018.

7. Systems and Controls

Weakness observed in relation to the systems and controls during the audit had been brought to the attention of the chairman of the company from time to time. Special attention is required for the following areas of control.

Area of Systems and Controls	Non- compliance
(a) Inventory Control	Exact methodology had not been introduced to calculate the value of raw materials stock.
(b) Financial Control	Before making payments for high valued transactions, a checking is not being done from the internal audit unit and when calculating the remittance special allowance (PVD allowance), sales units have not been taken into consideration.
(c) Debtors Control	Failure to recovery, without delay, the money Receivable from the debtors and not correctly posting them in accounts.
(d) Information technology system control	Salary information of previous months could not be obtained from the system and the system was not used for the purchase orders and the established system was not used regularly for the accounting, inventory control and sales of the coconut fertilizer project.
(e) Procurement	Technical evaluating committees had not been constituted for some procurements.