

Lanka Phosphate Limited – 2018/2019

1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income, the 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 reported to parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Lanka Phosphate Limited as at 31 March 2019, 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 Opinion

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 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 Sub 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 Scope of Audit

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 greater 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 Board of Governors 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

Audit Observation	Comments of the Management	the Recommendation
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Monthly production should be properly supervised and accurately computed before they are reported, as gratuity special allowance is computed based on the monthly production. Nevertheless, monthly production reports had not been duly supervised.	Comments were not made.	The accuracy of computations should be supervised by the relevant Staff officer.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	the Recommendation
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Sri Lanka Accounting standards No. 16		
(i) Even though classes of assets should be revalued as per paragraph 36, a common revaluation value had been identified for the office equipment, electric appliances, laboratory assets and miscellaneous assets of the Company.	A common value has been taken for resolving practical issues created in the reconciling revaluation values and book values.	Classes of assets should be revalued separately.
(ii) Even though the loss of Rs. 893,420 resulted by the revaluation of office equipment, electric appliances and miscellaneous assets should be brought to accounts as an expenditure in the profit and loss account in terms of Paragraph 40 of Sri Lanka Accounting standards No.16, only a sum of Rs. 109,916,263 had been transferred to the revaluation reserve by deducting the amount from the revaluation profit of Rs.110,809,682 generated from buildings, machines, vehicles and furniture fittings.	Since the revalued loss is not a material value, it had been adjusted to the profit and loss account brought forward.	The revaluation loss has to be recorded in accounts in terms of provisions of the Standard.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	the Recommendation
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The accumulated balance of buildings worth Rs. 9,574,147 as at 01 April 2018 existed before the year 1992 had become Rs. 619,319 by the date. The net value of Rs. 8,882,828 had been brought to accounts as depreciation expenditure in the year under review as annual depreciation had not been brought to accounts.	Even though certain shortcomings had taken place in the preparation of registers and these inequalities had been rectified in revaluing during the year.	Should be adjusted to the accumulated fund as it is not applicable to the year under review.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation

Comments of the Management

Recommendation

A balance of Rs. 7,165,008 existed from the year 2010 and a balance of Rs. 1,237,280 existed from the year 2014 within the balance of separating the bad debt and doubtful debt amounted to Rs. 10,572,664 and the Company had not taken action to remove the balances and to take an appropriate methodology. This had been pointed out through several audit reports in the previous years and COPE Committee recommendations had also been issued in this regard.

There is a balance due to not taking a final decision by the Board of Directors.

Action should be taken in compliance with the recommendations of the Committee on Public Enterprises.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.

Comments of the Management

Recommendation

- | Reference to Laws, Rules Regulations etc. | Comments of the Management | Recommendation |
|---|--|---|
| (a) FR 772 and FR 773 | Even though a sum of Rs.3,808,331 had been allocated in relation to obsolete stocks from the year 2016, action had not been taken to dispose of those goods in terms of the Financial Regulations. | Even though arrangements were made to remove obsolete stocks, it was not possible to remove such stocks. Action should be taken in compliance with the Financial Regulations. |
| (b) FR 1645 (b) | Even though the log book should be maintained by including the particulars of the vehicle, applying spare parts and servicing, log books had not been maintained including the relevant information though the Company had repaired and serviced vehicles at a value of Rs.2,871,815 within the year 2018. There were instances of running 04 vehicles exceeding the standard mileage which need a full service. | Information has always been maintained by the Institution systematically. Vehicle log books have to be updated and maintained. |
| (c) 4.2.3 (c) and 4.2.1 (e) of | The Progress of the procurement activities had not been regulated by | The relevant parties were made aware in The Procurement plan should be |

Procurement Guidelines	the Procurement Committee and the Technical evaluation Committee and the procurement plan had not been updated.	relation to the regulation of the progress of the procurement activities and updating the procurement plan.	updated by the supervising the procurement activities.
(d) Section 3.5 of the Public Enterprises Circular No. PED/2015/01 of 25 May 2015.	Even though an officer who obtains the transport allowance is not entitled to use pool vehicles, two officers who are entitled to the transport allowance had used pool vehicles.	The monthly entitlement of fuel of 120 litres was not adequate as the distance from Colombo to Eppawala was about 200 kilometres.	Facilitation should not be made to an officer who receives the transport allowance to use pool vehicles.
(e) Treasury Circular No. 842 of 19 December 1978.	The fixed assets register had not been maintained as per the Circular.	Comments had not been made.	Fixed assets register should be maintained according to an accurate classification.
(f) In accordance with Section 03 (3) of the Public Administration Circular No. 30/2016	A fuel consumption test had not been carried out at the first occurrence of exceeding the period of 12 months after performing every fuel consumption test or after running 25,000 kilometres.	Comments had not been made.	Action should be taken in compliance with Circulars.

1.8 Non-compliance with Tax regulations

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
The loss of the business brought forward had been overstated by Rs. 2,820,654 due to non-application of employee loan interest amounting to Rs. 2,820,654 in the computation of the taxable profit in accordance with Section 3 of the Inland Revenue Act No. 24 of 2017.	The observation had been admitted. There is no effect on the profitability as the business operates at loss and the incompliance would be rectified in the future.	The employee loan interest should be taken in to consideration in the computation of the taxable profit.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 28,663,251 and the corresponding surplus in the preceding year amounted to Rs. 16,593,820. Therefore, an improvement amounting to Rs. 12,069,431 of the financial result was observed. The major reason for the improvement is the increase in income from sales and the increase in the interest income earned from the fixed deposits.

2.2 Trend Analysis of major Income and Expenditure items

	2017/2018	2018/2019
	Rs.	Rs.
Income from sales	493,551,238	530,974,642
Operational expenses	507,993,742	536,271,853
Operational Loss	(14,442,505)	(5,297,211)
Other Income	31,036,324	33,960,461
Surplus	16,593,820	28,663,251

The operational loss amounted to Rs.14,442,505 in the year 2017/18 had reduced up to Rs. 5,297,211 by Rs. 9,145,294 in the year 2018/19. Even though the Company annually incurs a loss from its operational activities, the overall result had been a surplus. The interest income earned on fixed deposits had been the cause for this situation.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) A sum of Rs. 2,360,942 had been paid to the Ceylon Electricity Board on 07 January 2019 for repairing the generator of the Company which had become non-operative and for obtaining a generator on hire basis. The Company had not taken action to do the relevant repair and to obtain the generator on hire basis even by the date of this report.	It had been informed to the Ceylon Electricity Board to repay money as the Ceylon Electricity Board was unable to provide the service to the expected level.	The Management should take responsibility of making payments after obtaining the relevant services.
(b) The Company had not identified a standardized methodology to compute the stock of raw materials more accurately and fairly.	A standardized methodology is being formulated for the physical verification of goods.	The Management should make arrangements to introduce accurate and fair methodologies for physical verification of stocks.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) Non utilization of the Eppawala Phosphate deposit with its maximum capacity.		
The phosphate deposit spread in 06 square kilometres with a capacity of 60 million metric tons had not been utilized in its maximum capacity for the development of the country. Even though the Lanka Phosphate Limited had submitted project proposals to utilize the phosphate deposit in its maximum capacity in several occasions, it was not possible to implement those proposals due to the issue of allocating capital for that purpose.	Even though proposals had been submitted by making all the parties ware on this regard, the proposals could not be implemented.	The Management should make arrangements to take necessary action to utilize the phosphate deposit in the maximum level.

(b) **Coconut Fertilizer Project**

The Coconut fertilizer project, commenced in the year 2014 incurring a capital expenditure of Rs. 21,226,633 with the objective of acquiring a market share of 10% from the coconut fertilizer market and to provide a minimum of 3000 metric tons to the market annually, is operating at a continuous loss. According to the budget of the year under review in relation to the manufacture, the loss incurred during the year was Rs. 11.2 million although the annually expected income from coconut fertilizer and the other sales was Rs.89.4 million and expected net profit was Rs. 14.9 million.

A market recession took place due to the inability of competing with the Private Sector with the changes in the government fertilizer policy.

The Management should take action to achieve the anticipated marketing targets.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The Tipper vehicle bearing No. LA 2142 owned by the Company from 02 April 2018 and repairing had been recommended and however, action had not been taken to repair the vehicle even by the date of this report.	This had been referred to the Secretary of the Ministry for obtaining the approval for the repair.	The vehicle should be expeditiously repaired and used.
(b) Even though a new crusher machine had been purchased in the year 2016 for a sum of Rs.34,654,178 for the provision of fertilizer to be in appropriate to the rising demand for fertilizer and to reduce the import expenditure of fertilizer, using the machine for the manufacture of fertilizer was in a minimal level. Though the average production of the machine was 40 metric tons per hour, te number of days of using the machine was 103 days from the year 2016, in which the machine had been purchased up to 31 July 2019 and the production was 15,337 metric tons.	Action is being taken to use the machine in its maximum capacity.	The Management should be responsible to guarantee that the machine is being used in its maximum capacity.
(c) Even though spare parts had been purchased by incurring a sum of Rs. 43,453,115 in the year 2014 in order to install a new mill machine, the part	Comments had not been made.	Purchases should be made after identifying the requirements

valued at Rs. 11,513,434 could not be utilized for any purpose and remained idle

specifically.

3.4 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
(a) Twenty one (21) additional employees had been recruited by exceeding the approved cadre for 07 Posts of the Company.	The Staff Plan had been approved by the Department of Management Services in the year 2015 and recruitments were made provisionally.	Action should be taken to provide appointments after obtaining the approval of the Department of Management Services for the relevant Posts in appointing employees exceeding the approved cadre.
(b) Even though action should be taken to obtain the necessary approval after confirming the actual need of filling the posts in obtaining the approval for creating new posts, action had not been taken to recruit the two posts in the Management Level that had been approved even from the year 2011.	Comments had not been made.	Action should be taken to specifically confirm the need of filling the posts and then to obtain the required approval.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
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In terms of paragraph 6.5.1 of Public Enterprises Circular No. PED 12 of 03 June 2003, financial statements had been presented on 15 July 2019 even though financial statements should be presented to the Auditor General within 60 days after the closure of the financial year.	Comments had not been made.	Action should be taken in compliance with provisions of Circulars.

4.2 Internal Audit

Audit Observation	Comment of the Management	Recommendation
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Ensure that an effective internal control system for the financial control exists in each such entity and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Even though a review had to be carried out in writing and a copy of the same had to be made available to the Auditor-General, declarations that such a review had been carried out had not been presented to the audit.	Comments had not been made.	Action should be taken in compliance with the Audit Act.

4.3 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
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Although the action plan should be prepared on the commercial activities that should be scheduled to be implemented during the relevant year based on the	The identified key performance indicators	Action Plan should be prepared based on the commercial activities

key performance indicators, the daily activities of the Company had been included in the Action Plan prepared by the Company. have been limited. scheduled to be implemented.