Lanka Phosphate Limited – 2020/2021

1. Financial Statements

1.1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited ("Company") for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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 of the Company give a true and fair view of its financial position as at 31 March 2021, 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 (Auditor's Responsibility on the Audit of 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

- 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 Receivable and Payable Accounts

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
There were debtor balances amounting to Rs.1,487,567 prevailing for more than 3 years in the Wariyapola Coconut Fertilizer Project and Rs.10,100,566 prevailing for more than 6 years in the Eppawala Phosphate Company within the debtor balance of Rs. 71,447,853 and the Company was unable to recover these debtor balances. The debtor balances amounting to Rs.550,000 prevailing for several years and balances on cash sales amounting to Rs.2,475,958 prevailing from the year 2005 had been included in this debtor balance. The Company had failed to submit the information on these credit balances and the aforementioned cash sales to the audit.	It is not possible to recover those balances as there is no adequate information and there are no persons in the institution, who are aware of those balances and I hope to discuss with the Board of Directors and to implement an appropriate decision to settle these balances in the fiscal year 2021/22.	The Management should take action to settle credit balances outstanding for a longer period and to recover the relevant debtor balance.

2. Financial Review

2.1 Financial Results

Operational result for the year under review amounted to a profit of Rs. 150,582,469 and the corresponding profit for the previous year was Rs. 13,480,162. Accordingly, an improvement of Rs.137,102,307 was observed in the financial result. Increase in the income of “Eppawala Rock Phosphate (ERP) by Rs. 210,394,575 was the main reason for this improvement.

2.2 Ratio Analysis

Ratios	2019/2020	2020/2021
Current Assets Ratio	15:1	10:1
Quick Assets Ratio	12:1	8:1
Gross Profit Ratio	37%	46%

The current ratio had been a higher value due to the increase in the investment in fixed deposits and the current assets had increased as compared with the preceding year since the profit of the year under review had also been invested in fixed deposits. The current ratio had decreased as compared with the preceding year since accrued expenses had increased as compared with the preceding year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
A capital expenditure of Rs. 21,226,633 had been incurred for the Coconut Fertilizer Project, which was initiated on 14 February 2014 and it had been anticipated to obtain annual revenue of Rs. 72 million from coconut fertilizer, a net profit of Rs. 10 million and to obtain an annual revenue growth of 10 percent. The long-term goal was to capture a 10 percent market share out of the coconut fertilizer market. However, coconut fertilizer had not been manufactured due to non-supply of raw materials to the project from May to November 2020 and the production and sale of fertilizer had increased during the period of December 2020 to March 2021 due to the availability of raw materials required for the manufacture of fertilizer.	Although this was implemented under various outcomes in accordance with the periodical changes in the market, changes in the government policies on fertilizer and institutional administrative decisions and even though action has been taken in accordance with a systematic methodology with effect from December 2020 to maintain it in the level that it earns a fair profit, it was halted with the imposition of restrictions on the use of chemical fertilizers with effect from April 2021.	Methodologies should be developed to bring the Coconut Fertilizer Project initiated at a capital cost over Rs. 21 million to an active and effective level.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) The basal part the new mill machine, valued at Rs. 11,513,434 and purchased in the year 2014 from another private institution of China according to the Condition that it is required to purchase a new 6 Roller (TGM 160) Mill Grinder Machine worth Rs.43,435,115 in order to supply spare parts required for the 6 Roller (TGM 160) mill machine purchased from a private company in China in the year 2011 and spare parts valued at Rs. 14,290,237 purchased for mill machines during the period of 2014 to 2016 and the construction worth Rs. 7,440,000 indicated as work in progress for the installation of this mill machine remained idle without utilizing them until 30 July 2021.	Installation of this machine was delayed due to the changes in the market demand and political changes, and the installation activities have now been resumed. It has been planned to utilize the machine for manufacturing activities by January 2022.	Action should be taken against the officers, who have purchased the relevant machine parts without taking into consideration the ability to install the machine parts and the Management should take action to install the relevant machinery parts as soon as possible and to bring them to the working condition.
(b) A used Crusher Machine had been purchased at a cost of Rs.34,654,178 with the objective of supplying fertilizer to meet the increasing fertilizer demand and to reduce the expenditure for importing fertilizer and then Production Manager had informed the General Manager in writing with photographic evidences that no part of the machine contains information about the type, model, manufacturing company or country of manufacture of the machine. The machine had not been utilized for any purpose from its installation up to 30 July 2021. Further, the Authorities of the Company had not identified the loss incurred to the Phosphate Company by purchasing a used machine in place of a new crusher machine and those who were responsible for not using the	At present, it has been planned to repair this crusher machine and to reuse it for manufacturing activities. The assistance of the Provincial Engineers in the North Central Provincial Council has been obtained to get the necessary technical recommendations and I would like to inform you that necessary modernization work will be carried out expeditiously on those recommendations.	The Management should take steps to use the machine, which has been purchased at a cost over Rs. 34 million, for carrying out manufacturing activities effectively.

relevant machine and had not taken action against such persons. Moreover, it had also been observed that the machine had been destroyed due to its insecure placement since 2014.		
(c) The Double Cab, which had been recommended to remove from running with effect from 07 January 2019 and to auction had not been auctioned or used for running even by10 November 2021.	Due to the prevailing situation and limitations in the current automotive market, the removal of these vehicles has to be delayed and this vehicle will be removed through a newspaper advertisement after obtaining a new valuation report.	Action should be taken to repair and to use it for running or to dispose it with the relevant approvals.
(d) The Company had not taken action to remove the obsolete stock of Rs.3,808,331, prevailing from the years 2016, 2017 and 2018 even by the date of the audit.	Although advertisements were published on several occasions to remove these parts, the removal process could not be completed as sufficient requests had not been submitted for that purpose.	Activities on removal should be carried out expeditiously.
(e) Scrap metal and other machinery parts that had been disposed of from a number of years had been scattered insecurely in the premises of the plant yard and action had not been taken to dispose of them.	Arrangements have been made to publish the relevant newspaper advertisement by December 2021 and to dispose of them through the tender procedure.	Activities on the disposal should be carried out expeditiously.

3. 3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
The Company had recruited one Post of Worker in excess of the approved cadre pertaining to the approved staff in the primary level of the Company and 29 employees on daily basis and 03 Posts of Estate Assistants.	I would like to inform you that although the employees required to continue the manufacturing activities of the Company have been recruited on daily basis, action has not yet been taken to recruit the above employees permanently to the Company due to the limitations in the staffing plan and the scheme of recruitment of the Company.	Appointments should not be made exceeding the approved staff.