

Lanka Phosphate Limited -2022/2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 Company as at 31 March 2023 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 the 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 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 of the Company 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 Scope of Audit (Auditor's Responsibility on the Audit of 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 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 has performed according to its powers, functions and duties,
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

1.5 Accounts Receivables and Payables

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The total debt receivables amounted to Rs.9,769,506 provided as bad debts to be recovered for more than 05 years included in the debt balances of Rs.34,427,525 at the end of the review year and these balances had not been recovered till the date of the audit.	Instructions have also been received from the Ministry of Finance to formally write down the non-recoverable balance of more than 10 years to be recovered from the public institutions and efforts will be made to settle these balances in the future. Recovery of the money from the debtors belonging to the Wariyapola Coconut Fertilizer mixing plant has been expedited and legal action is being taken against two of them.	Every possible step should be taken to recover the due balances.

1.5.2 Payables

Audit Observation	Comments of the Management	Recommendation
A Crusher machine purchased at a cost of Rs.35,867,000 in year 2014 was kept idle in the company premises without any use and the relevant retentions of Rs.4,386,358 were stated as accrual expenses from the year 2014 without settlement.	Due to on going investigations on this machine, its use for manufacturing and modernization has been delayed. Advice has been sought from Attorney General's Department on the possibility of modernizing and using the machine for production. According to the report submitted to the Board of Directors regarding the requirement of the machine and it's use for future production the management had decided to use the amount of Rs.4.3 million.	Actions should be taken to settle the payable balances.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.35,284,555 and the corresponding profit in the preceding year amounted to Rs.122,782,789 . Therefore, a deterioration amounting to Rs.87, 498,234 of the financial result was observed. Even though increased the interest and other income by Rs.72,123,040 and the cost of sales decreased by Rs.55,014,073, Decreased the sales income by Rs.195,453,219 and increased the Factory and Administrative over heads by Rs. 22,319,835 are main reasons for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) At the end of the review year, there was a bank overdraft of Rs.82,925,144 and overdraft interest of Rs.9,749,495 was paid for that.	Agreed. Due to the economic crisis in the country and the increase in fertilizer prices, the use of fertilizers and the decrease in the fertilizer mix in the country resulted in achieving only 50 percent of the expected target in 2022/23. As a result, due to the financial crisis, the company had to take a bank overdraft facility by pledging fixed deposits. The amount of interest earned through fixed deposits was higher than the bank overdraft interest, which benefited the company. However, by the end of May 2023, the bank overdraft facility has been completely completed and fixed deposits will be maintained at the level of Rs.590 million.	Efforts should be made to reduce interest expenses through proper financial management.
(b) The Company had purchased spare parts for the grinders every year, where the machine was purchased directly from the purchasing agency without calling competitive prices or looking into the possibility of purchasing from a local supplier. Further, there was no assessment of the need for spare parts and a stock of spare parts worth Rs.7,229,928 was kept in the stores at the end of the review year.	It is planned to avoid such shortcomings in the future.	Purchase of spare parts should be done in accordance with procurement guidelines. Arrangements should be made to purchase spare parts after proper evaluation of the requirement. Disciplinary action should be taken against the officers who purchased spare parts unnecessarily.
(c) The UV-Visible spectrophotometer machine, which checks the percentage of Phosphate (P_2O_5) in the company's stock of Rock Phosphate (ERP) and High grade Eppawela Rock Phosphate (HERP) fertilizers, became obsolete,	Agreed. All procurement process for a new UV-Visible Spectrophotometer machine measuring rock phosphate (P_2O_5) composition during production has been completed and the equipment is expected to be delivered to the company within the next 02 months.	Necessary steps should be taken to maintain the quality of the products as the products not being up to the desired standard can adversely affect the sales of the company.

causing problems regarding the accuracy of the information provided by the company. The stock of 3,173 metric tons of fertilizer sold after conducting quality checks from the said machine was returned to the company as it did not meet the expected standards.

- (d) Due to the lack of the expected level of rock Phosphate in the fertilizer sold by the company, the company had incurred a loss of Rs.2,607,540 while returning 334.30 metric ton of High Grade Eppawala Rock Phosphate (HERP) of Rs.27,800 per metric ton and 334 metric ton of Eppawala Rock Phosphate (ERP) of Rs.20,000 per metric ton at the selling price.
- It is true at the first glance that the company has incurred a loss of Rs.2,607,540 through this fertilizer exchange. For this purpose a technical evaluation committee has provided 334.30 metric ton of HERP on the basis of the calculation made and with the approval of the Board of Directors, for which the entity have not incurred any transportation or additional employee costs. So in fact the entity have not suffered any loss.
- Necessary steps should be taken to maintain the quality of the products as the products not being up to the desired standard can adversely affect the sales of the company.
- (e) The Wariyapola Coconut Fertilizer Project was started in 2014 with a capital expenditure of Rs.21,226,633 and was stopped by 05 May 2021 and the total project incurred a loss of Rs.31.71 million. Further, the lease period of the land acquired on a five year lease basis for project purposes had expired on 05 September 2018 and the production activities were carried out without renewing the lease agreement, the land owner had prevented the company from entering the project premises since September 2022 and no action was taken to settle the dispute.
- Agreed. In the first two years, the project has shown good progress, but has not been able to achieve the desired results since then. Further, our company has so far with held an amount of Rs.480,000 to be paid as lease rent to the land owner from June 2021 to September 2022 and the Board of directors has decided to release the money only after reaching an agreement with him.
- As it is a project started at a capital cost of more than Rs.21 million, the problems arising out of it should be resolved quickly and efforts should be made to implement the project effectively.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The Company had expected an additional production of 10 metric tons per hour by installing the TGM 160 grinder purchased in 2013. Although the machine was installed in September 2022, the expected additional production was not achieved due to the delay of February 2023 to start production.	Production targets have also been changed based on actual sales in order to reduce unnecessary costs in 2022/2023, Accordingly, it cannot be agreed that the above machine was not used for production till February 2023 as the above machine has successfully contributed to production between September 2022 and February 2023.	Considering the practical conditions arrangements should be made to prepare plans and carry out the planned tasks.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) A rubber bush used by the company for mineral grinding machines was purchased from a local company for Rs.350 each and continued to be used for the machines till the audited date of 14 September 2023. On 17 December 2022 rubber bush units 200 were imported per unit each at Rs.79,082 for Rs.15,816,482 stating that the stock was zero when 81 units of goods were in stock. Accordingly, the company incurred a loss of Rs.15,746,482 due to the import of the relevant items at a very high price. Which could have been purchased at a minimum cost of Rs.70,000. The purchased stock was kept idle in the stores unused till 14 September 2023 on the date of the audit and 198 units of coupling bolt were also received in additions to the rubber bush, at the but they were kept idle as the nails were no use to the machine concerned.	The procurement is already under investigation at the Ministerial level and Investigations are also carried out by the Bribery and Corruption Commission. There is also this issue is as a case pending in the Supreme court. Accordingly, further action will be taken on the basis of those reports. However, arrangements have been made to avoid such defects in the future and on the recommendation of the engineers, it has been planned to manufacture and purchase all the machine parts and spare parts that can be purchased domestically within the country as well as the spare parts to be imported from abroad through international procurement methods.	Employees responsible for making unintentional purchases should be identified and disciplinary action should be taken. A program should be made to use the unnecessarily received coupling bolt stock misuse to minimize losses. The purchased rubber bush stock should be safely stored and utilized.
(b) The company No LPL/SUP-HO/FI-B1D/2022/05 had awarded to a supplier to purchase 1,200,000 bags of fertilizer	Agreed with audit observation, However since this issue is a prelude to a case being heard by	Disciplinary action should be taken against the officers who did not

packaging each by Rs.86 for Rs.103,200,000 and there a formal contract agreement was not signed in accordance with procurement Guideline 8.9.1 after obtaining performance gurantee in accordance with procurement auidline 5.4.10. The supplier supplied 26,400 packaging bags at Rs.86 each and then increased the price of a bag to Rs.120 and Rs.147. The company had to purchase 717,500 fertilizer packaging bags at a cost of Rs.96,407,500 while it could buy for Rs. 61,705,000 that due to not entering into a agreement and non availability of performance security and the company had incurred a loss of Rs.34,704,500.

the supreme court, I would like to inform you that I will not comment on the matter at this stage.

take action to obtain performance gurantee and enter into formal contract aggrements in accordance with the procurement guide lines and recover losses from the responsible parties.

- (c) A Gear box device for the company's TGM-160 Six Roller grinding machine had imported for Rs.5,656,344 from Henan Liming Heavy Industry Machinery Sales Co. Ltd of China in the year 2022. A competitive and systematic procurement process was not followed for this purpose. In this regard, the report of the Technical Evaluation Committee dated 24 November 2021 had recommended that it was appropriate to purchase the said device from the company due to the supplier's representative supplying TGM grinding machine parts in the South Asian region, but there was no formal evaluation of the value of procurements, specifications of the product and competitive suppliers. The product was received at the main store of the entity on 10 May 2023 and a screening panal consisting of the members of the entity appointed in this regard had recommended that the device was not acceptable as there was a change in the mode of gear box device applied for and actually received by the entity as per the report given on 12 June 2023. Accordingly, the device was kept in the

An inquiry is already carried out at a Ministerial level regarding this purchase. Investigations are also carried out by the Bibery and corruption commission. This issue is also a case pending in the supreme court. Futher action with be taken on the basis of these reports. However it is planned not to make such shortcomings in the future on the recommendation of the engineers, it is planned to manufacture and purchase all domestically procured machine parts and spare parts with in this country. As well as spare parts to be imported from abroad though international procurement methods.

The parties reponsible for irregular procurement should be identified and disciplinary action should be taken against such officers. Immediate action should be taken to reach an agreement with the supplier to get the currant devise during the warranty period efforts should always be made to follow competitive procurement procedures while making purchases.

stores without being included in the stores documents until 05 October 2023 which was the date of audit and could not reach an agreement with the supplier on the action to be taken in this regard due to lack of agreement with the supplier at the time of purchase. The value of the order for purchase was Rs.4,802,850 (US\$13,000) fully paid to the supplier on 15 September 2022. The supplier had given a warranty period of 15 months for the device, but by 05 October 2023, the expiry of 07 months.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
The approved posts of the primary level machine operator posts in the company's staff was 14, of which 50 percent or 7 posts remained vacant. Out of the 90 Production Assistants posts at that level, 7 were vacant while 33 employees were recruited on contract basis.	In the future, an interview will be conducted through proper procedure and the qualifications will be checked and the vacancies will be filled according to the recruitment procedure.	Staff vacancies which are essential to maintain the operations efficiently should be filled. In case of excess contract employees appropriate action should be taken in consultation with the Board of Directors.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
According to the Company's Action Plan of the review year revised on 28 February 2023 the activities had not been planned in accordance with the mission of the company to fulfill the national requirement of phosphate fertilizer by being self sufficient in phosphorus through an environment friendly and only 05 projects under the program of production and services and under the infrastructure development only one project were included in the action plan at a provision of Rs.168,600,000.	The management had to suspend or delay most of the activities planned at the beginning of the year, based on the nearly 50 percent slowdown and collapse in the sales and operations of the company insufficient income to run the day – today operations of the company and having to meet the basic expenses through a bank overdraft.	Activities should be planned and implemented in accordance with the mission of the company.