

Kahatagaha Graphite Lanka Limited – 2015/2016

The audit of the financial statements of the Kahatagaha Graphite Limited ('the Company') for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Republic of Sri Lanka.

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 Board, 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.

2. Financial Statements

2.1 Opinion

In my opinion the financial statements give a true and fair view of the financial position of the Company as at 31 March 2016, and its financial performances and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on the 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 for opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company
 - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

2.3 Comments on Financial Statements

2.3.1 Non- Compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non – compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non- Compliance -----
(a) Section 04 of the Inland Revenue Act No. 10 of 2006	The Company had deducted PAYE tax only on the gross salary amount and did not consider other allowances such as telephone and any other regular profit derived by the employees in whatever capacity of the company.
(b) Nation Building tax Act No. 09 of 2009	Nation Building tax return had not been submitted on quarterly basis by the company.

3. Financial Review

3.1 Financial Result

According to the Financial Statement presented, the operation of the Company had recorded a pre-tax net profit of Rs.2,398,667 as compared with the corresponding pre - tax net loss of Rs.10,848,557 for the preceding year, thus indicating an improvement of Rs.13,247,224 in the financial results of the year under review. 63 percent decrease of depreciation cost, Decrease of establishment and administration cost by 65 percent and finance and other cost by 76 percent were the main reasons for this improvement in the financial results.

3.2 Analytical Financial Review

(a) Significant Accounting Ratios

Some important accounting ratios of the company for the year ended 31 March 2016 as compared with the previous year are as follows.

Ratio	2015/2016	2014/2015
Current Ratio	6.3:1	4.7:1
Quick Assets Ratio	1.3:1	0.74:1
Gross Profit Ratio	40.44%	45.83%
Net profit ratio (after tax)	1.16%	-8.88%

The current asset ratio of the company for year under review was 6.3. However, the quick asset ratio was 1.3 since 79 percent of the current asset represents the stock of the company.

The gross profit margin of the company for the year under review with compared to the previous year had been decreased by 5 percent. However net profit ratio had been increased by 10 percent due to the decrease of the operating cost.

4. Operational Review

4.1 Budgetary Control

The business objectives of the company are mining and processing for export of high purity quality graphite and maximum value addition and developing graphite based industries. The following observations are made in this regard.

- (a) Although the annual budgeted production was 900 metric tons, the actual production of the year under review was only 771.48 metric tons.

- (b) Although the annual sales target was 750 metric tons, the actual sales of the year under review was only 558.62 metric tons and the budgeted sales income was Rs.154.3 million and actual sales income was Rs.109 million.

29 percent variation had been observed between the budgeted and the actual figure of sales.

4.2 Management Inefficiencies

The following observations were made.

- (a) Actions had not been taken to introduce a system to measure graphite at the first point of removing from the mines. Because of that book balance and physical balance of graphite stock varied by 174.33 MT. Physical graphite stock as at 31 March 2016 was 600.15 MT and book balance was 774.48 MT and the difference had been considered as normal wastage of graphite.
- (b) Due to the non-availability of extra water Motors for pumping of underground water, disrupted the production capacity.

4.3 Build up a fund for Retirement Benefit

Even though gratuity provision of Rs.8,762,764 had been made in the financial statements as at 31 March 2016. However, no separate fund had been created to meet the payment of future liability amounting to Rs.6,762,764.

5. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the chairman of the company. Special attention is needed in respect of the following areas of controls.

Control area	Observations
-----	-----
(a) Stock Control	<ul style="list-style-type: none"> • No any realistic method to measure the stock of Graphite • No Standard appears to Separation of graphite and stone at the initial measurement point. • Records in the stores had not been updated properly.
(b) Asset Management	<ul style="list-style-type: none"> • Company had not taken actions to use non-operating asset.