

Lanka Phosphate Limited – 2021/2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, and its financial performance and 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 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 Accounts Receivable

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| The total debtors balance of Rs. 47,738,672 included unrecovered loan balances of Rs. 1,374,567 over 03 years and Rs. 6,465,257 over 6 years in the year under review and there were unidentified debtors balances of Rs. 2,475,958 as well, brought forward since the year 2005. | <p>Wariyapola - Two debtors have agreed to make payments on monthly basis. Provision for bad and doubtful debts have already been made.</p> <p>Eppawala - Even though instructions have been given to make rectifications on the balance of Rs. 8.9 million on a decision of the Board of Directors, the Board had not given proper instructions thereon and as such, these balances still remain in accounts without being rectified.</p> | Action should be taken to settle balances remained for a long period and recover relevant debtors balances or to take other appropriate measures. |

2. Financial Review

2.1 Financial Results

The operational result for the year under review had been a profit of Rs. 157,030,089 and as compared with the corresponding profit of Rs. 150,582,469 in the preceding year, thus observing an improvement of Rs. 6,447,621 in the financial result. The increase in the interest income of on fixed deposits and other various income by Rs. 4,931,136 and Rs. 2,896,449 respectively had mainly attributed to the said improvement.

3. Operating Review

3.1 Identified Losses

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| Four institutions had applied for the Tender Notice No. LPL/SUP-HO/FI-BID/2022/05 published for the purchase of 1,200,000 fertilizer packing bags for the year 2022 by the Lanka Phosphate Limited under the National Procurement Guidelines. The Lanka Phosphate Limited had issued a letter of awarding the | Action will be taken to forward a detailed reply thereon along with a reply to the audit query. | Action should be taken in terms of the Procurement Guidelines and in a manner of reaping maximum benefits to the Institute. |

contract for the purchase of 1,200,000 fertilizer bags costing Rs.103,200,000 at a rate of Rs.86 per bag on 28 February 2022 to the Lanka Polysacks (Pvt) Ltd., who had submitted the second highest bid. However, in terms of Guideline 8.9.1 of the Procurement Guidelines 2006, a proper contract agreement had not been signed after issuing a letter of acceptance and in terms of provisions of Guideline 5.4.10, a performance security had not been obtained to cover warranty obligations. As such, a number of 26,400 packing bags had been provided at a rate of Rs.86 and thereafter, the price of a packing bag had been increased up to Rs.120. Even though the Secretary to the Ministry had informed that the Cabinet approval should be obtained for the purchase of packing bags at that rate, the Company had purchased a number of 97,900 bags at a rate of Rs. 120 without obtaining the Cabinet approval.

An invitation to restricted bids (LPL/SUP-HO/FI-LQ2022/07) had been made through e mail to 09 institutions for the purchase of 300,000 fertilizer packing bags by cancelling the Tender due to issues of the procurement relating to the purchase of 1,200,000 packing bags. However, only Lanka Polysacks (Pvt) Ltd., had submitted bids and as such, a letter of acceptance had been issued on 09 May 2022 for the purchase of 300,000 (Rs.41,160,000) packing bags at a rate of Rs.137.20 per bag. Nevertheless, in terms of Guidelines 5.4.10 and 8.9.1 of the Procurement Guidelines 2006, a performance security and a written agreement had not been entered into respectively. Even though only 100,000 packing bags had been provided at a rate of Rs.137.20, the price of a bag had been increased and a number of 200,000 bags had been provided at a rate of Rs.147.28 per bag.

Accordingly, a written agreement and a performance security had not been obtained in terms of Guidelines 8.9.1 and 5.4.10 of the Procurement Guidelines 2006 respectively for the purchase of 1,200,000 packing bags at a rate of Rs.86 as per the Tender LPL/SUP-

HO/FI-BID/2022/05 submitted therefor. As such, instead of paying Rs.36,489,800 for the purchase of 424,300 packing bags, a sum of Rs.57,194,400 had been paid at various rates, thus sustaining a loss of Rs.20,704,600 by the Company.

3.2 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| <p>(a) The Company had not taken action even by August 2021 to install or to make use of the new 6 Roller (TGM 160) mill machine for the manufacturing process, purchased by spending Rs. 43,435,115 in the year 2014 and installation was commenced in September 2021 and it was under testing by September 2022 to make use of for the manufacturing process. An expenditure of Rs. 37,366,525 had been incurred therefor by 31 March 2022 and any constructions whatsoever had not been carried out relating to the expenditure of Rs. 7,440,000 indicated as installation of the machine in the said expenditure. Moreover, the said expenditure had not been specifically revealed in audit.</p> <p>Furthermore, spare parts valued at Rs. 43,474,868 purchased for TGM 160 machines had been kept in the Eppawala stores as at 31 March 2022 and non-utilization of these spare parts for the installation of the new machine was contentious in audit. New spare parts valued at Rs.11,537,876 had been newly purchased for this machine in the year under review.</p> | <p>The value of Rs.3,990,000 relating to spare parts used in the installation of the machine is included in the payment of Rs.7,440,000. Only a part of spare parts valued at Rs.43,474,868 is necessary for the installation of the new machine and all remaining parts are the spare parts, purchased for the old TGM 160 machine. Further, spare parts for the new mill machine are currently not available with us and action is being taken to import them.</p> | <p>Action should be taken against the officers, who have purchased the relevant spare parts without taking into consideration the ability to install the spare parts.</p> |
| <p>(b) The Wariyapola Coconut Fertilizer Project was initiated on 14 February 2014 by spending a capital expenditure of Rs.21,226,633 and in addition to the manufacture of coconut fertilizer, manufacture of fertilizer of 12.14.14 and 15.15.07 types for the Rubber cultivation had been commenced since February 2021. Manufacturing activities of the Wariyapola Coconut Fertilizer Manufactory had been discontinued from 05 May 2021 in line with the Government policy of banning usage of chemical fertilizer with a</p> | <p>Mixing of fertilizer has been suspended therein since April 2021 due to unavailability of Urea and MOP in the market. Action has been taken to hand over the fixed assets and other materials existed therein to the Eppawala Project. Discussions are being held with the land owner</p> | <p>Action should be taken to prepare procedures to bring the project into the operative and effective level by entering into a long term lease agreement or to reach decisions beneficial to the Institute.</p> |

view to promoting the organic fertilizer cultivations.

The lease agreement of the land which was obtained at a monthly rental of Rs.25,000 for this project, had not been extended after the year 2018 and a lease rental of Rs. 300,000 was payable to the land owner for the year ended 31 March 2022. The land owner had prevented the Lanka Phosphate Limited from entering this premises on 22 September 2022 and the environment necessary for manufacturing activities on this premises had not been settled by holding discussions with the land owner even by 25 October 2022. In case of removal of the Coconut Fertilizer Project, executed on this premises, there is a possibility of the Company being deprived of the expenditure incurred by the Company for the building constructed on the land and the cost of the coconut fertilizer mixture amounting to Rs.17.5 million and Rs.150,000 respectively.

in respect of the removal of the building valued at Rs.17.5 million constructed on this land and in case of failure in reaching an agreement, action will be taken to remove the said building through legal procedures or to take measures in a manner beneficial to the Institute by holding discussions with the Board of Directors.

3.3 Operating Inefficiencies

Audit Observation

The Cabinet had granted approval on 29 January 2007 for manufacture of Single Super Phosphate. The Cabinet approval had been granted again by letter No.18/2146/820/025 -1 dated 18 September 2018 for manufacture of Single Super Phosphate as a substitute for imported Triple Super Phosphate using Apatite in the Eppawala deposit and applying nano-technology. An imported fertilizer named Sulphur should be mixed for producing Single Super Phosphate and the commencement of this project had to be postponed again due to the state policy for preventing importation of fertilizer in the year 2021. Even though Cabinet approval had been received, this project has not been commenced up to now. However, the Phosphate Company had spent a sum of Rs.1,993,343 therefor in the years 2020 and 2021 and a sum of Rs.1,673,984 of that representing approximately 84 per cent had

Comments of the Management

The suspension of activities relating to this project has taken place due to matters beyond our control and policy decisions. However, discussions have begun at Ministerial level for expeditious production of Single Super Phosphate (SSP) once again. It is our desire also to see the success of the said activities at least this time.

Recommendation

Action should be taken to expedite the commencement of this project.

been spent for payments of new coordination of project consultant committees. Even though the state policy of importing fertilizer had changed, action had not been taken to commence the activities of this project despite the lapse of 15 years after granting approval.

3.4 Transactions of Contentious Nature

Audit Observation

A conveyor belt of 80 feet (18"-05 ply) had been purchased by spending a sum of Rs.172,800 in the year under review for the TGM 160 mill machine which was being constructed and it was observed at the spot test that it has been reconstructed by filling cracked places and as such, it was inappropriate to be installed to the new machine which was being constructed. Thus, it was observed that it had been kept in the stores. Sixty two feet of the Conveyor Belt of 154 feet (20*12mm) purchased in the year 2017 presently available in the stores had been used therefor instead. Despite having a Conveyor Belt of 154 feet of good condition in the stores, purchase of another 80 feet of Conveyor Belt by incurring a fruitless expenditure of Rs.172,800 and the purchase item being inappropriate for use, was contentious in Audit.

Comments of the Management

An inquiry in this regard is being currently held with the participation of three Senior Engineers of the Institute and several other officers.

Recommendation

Action should be taken against officers who have carried out these purchases.

3.5 Idle or Underutilized Property, Plant and Equipment

Audit Observation

- (a) Two crusher machines used as a new machine had been purchased in the year 2014 for Rs.34,654,178 based on matters such as supplying fertilizer to meet the increasing fertilizer demand and to reduce the expenditure for importing fertilizer and the 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

Comments of the Management

A committee comprising senior officers of the Institute has been appointed therefor and action is being taken on those recommendations.

Recommendation

The Management should take action for effective utilization of the machine purchased by spending over Rs.34 million, in production activities.

its installation up to 30 September 2022. 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 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 and the retention money of Rs.4,386,358 payable to the Company from which the machine was purchased, had not been released due to the inoperative condition of the machine.

- (c) Two motorcycles and a wheel loader costing Rs.3,670,000, and a Double Cab costing Rs.2,200,000 had remained idle in the Company premises even by 30 September 2022 without being operated for a long period

All matters relating to auction of those vehicles have already been carried out.

Action should be taken for disposal or any other appropriate measure.

3.6 Human Resource Management

Audit Observation

There were 9 and 38 vacancies in posts of 8 in the Secondary Level and 13 in the Primary Level respectively relating to the approved cadre of the Company and one employee for the post of Labourer and 37 employees who served on daily basis in the post of Production Assistant, had been recruited exceeding the approved cadre.

Comments of the Management

Action has not been taken to make these posts permanent and the service of persons has been obtained on daily payment basis for performing functions relating to each post on urgent requirements from time to time.

Recommendation

Action should be taken to fill vacancies and making appointments exceeding the approved cadre should be avoided.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

In the examination on the progress relating to the Action Plan of the Company, 07 out of 20 activities have not been carried out and the progress of 06 activities had ranged from 1 per cent to 35 per cent.

Comments of the Management

Seven activities had not been carried out and the progress of 06 activities had taken a low percentage.

Recommendation

Action should be taken to perform functions according to the plan.

4.2 Budgetary Control

Audit Observation

Even though the budgeted income in the year under review was Rs.916,499,400, the actual income was Rs.741,553,282. As such, the actual income received had been less by Rs.174,946,120 than the budgeted income. The main reason therefor had been the decrease in the actual income by Rs.26,444,781 than the budgeted income of HERP fertilizer and the decrease in income expected from fertilizer mixtures by Rs.152,242,825.

Comments of the Management

The decrease in sale of HERP and the decrease in income expected from fertilizer mixtures by Rs.152 million (16.6 per cent) have been indicated as reasons for actual decrease in sales.

Recommendation

Action should be taken to maintain the income within the budgeted income.