

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Kahatagaha Graphite Lanka 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, 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, except for the effects of the matters described in Paragraph 1.5 of this report, 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 for Small & Medium Sized Entities.

1.2 Basis for the Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

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 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 for Small & Medium Size Entities 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 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 Audit Scope (Responsibility of Auditor regarding 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 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 governing body 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non- Compliance with Sri Lanka Accounting Standards for Small & Medium Sized Entities

Reference to the Standard and Non-Compliance	Comments of the Management	Recommendation
(a) In terms of the the paragraph 2.52 of the Accounting Standard for Small and Medium Size Entities, The assets and liabilities should not be offset unless permitted,an advace payment of Rs.8,537,430 paid by a customer of the company was deduct from the receivable to the company instead of being shown as a payable balance and an advance amount of Rs.1,097,175 paid to 03 suppliers was shown deducting the payable value instead of being shown as a receivable balance .	This purchase advance amount of Rs.8,537,430 is an advance amount paid by Fujian Lufurun International trade co.limited ,a graphite buyer on its order and the management has decided to account this amount as current liability. The management decided to account the advance paid to suppliers and the equipment repairers as current assets.	Actions should be taken to show the assets and liabilities separately without offsetting as per Accounting Standards for Small and Medium size Entities.
(b) In accordance with paragraph 79(C) of Sri Lanka Accounting Standards 16 machinery amounting to Rs.23,210,000 not currently in used was not disclosed in the financial statements	The inactive machinery equipment of Rs.23,210,000 allocated to be used for display in the Graphite Meuseum which is expected to be started and management had decided to disclose it in the financial statements.	Actions should be taken to disclose the inused assets in the financial statements in accordance with the accounting standards.

1.5.2 Accounting Defeciencies

Audit Observation	Comments of the Management	Recommendation
(a) At the end of the year under review ,the stock value of 7 metrictons of graphite was not taken into the closing stock, the stock value was under stated by Rs.1,629,269 in the financial statements. As a result ,the profit for the year was also under stated by the same amount.	The management decided to rectify the error of not including the 7 metric tons of stocks to the physical verification and the financial effect of Rs.1,629,269 in the future preparation of the accounts.	The assets of the company and the accuracy of the profit was based on the accuracy of the closing stocks and therefore the closing stocks should be calculate correctly.
(b) The security expenses payable amount of Rs.3,387,101 which had been carried forward for several years had been credited to the security expenses account of the reviewed year without formal approval or confirmation. Due to this ,the profit of the year under review was overstated at same value.	Due to the difference between the security expenses included in the security service supply agreement between Apex Network Security Ltd and Kahatagaha Graphite Ltd and the security expenses bills submitted by the said security services company,the over calculation security expenses had accumulated unpaid for years.Since there is no need to keep these payments in the accounts due to the removal of this security service agency in the later period.Arrangements have been made to remove them from accounts in the year 2022/2023. Adjustments are made to the current year as this adjustment is not practicable to adjust the accounts retrospectively.	The expenses should be write off with formal approval and write off should be properly Accounted for.

1.6 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
The information required to confirm the balance of Rs.6,176,996 stated as tax on the value added receivable was not submitted to audit and no arrangements were made to settle the balance.	The balance due in the value added tax account which has been accumulating for many years is periodically audited and released by the Inland Revenue Department.The management has decided to speed up the settlement of this balance in consultation with the Inland Revenue Department.	Actions should be taken to settle this value in aggrement with the Inland Revenue Department and the information required to confirm the balance should be submitted to the audit.

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

Reference to the Laws, Rules and Regulations etc	Non-compliance	Comments of the Management	Recommendation
(a) Section 40 of the National Audit Act No.19 of 2018.	No Internal auditor was appointed for the company.	Department of Management Services has approved an internal auditor, but no new internal auditor has been recruited due to financial constraints.	Actions should be taken to appoint an internal auditor as per the provisions of the Act.
(b) Paragraph 6.6 of operational manual introduced by the Public Enterprises Circular No.01/2021 dated 16 November 2021.	Although the draft Annual report and financial statements should be submitted to the Auditor General within 60 days after the closure of financial year, the financial statements of the company for 2022/2023 were submitted for audit on 13 November 2023.	This work was delayed because the audit of the year 2021/2022 had to be completed and the balance should be taken into the 2022/2023 accounts and the accounts should be prepared.	Financial statements and draft annual report should be submitted on due date as per circular provisions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.57,110,521 and the corresponding profit in the preceding year was amounted to Rs.11,085,760. Accordingly, an improvement of Rs.46,024,761 was observed in the financial result. Sales income increased by Rs.56,093,506 was the main reason for this improvement.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
The Company had to pay a surcharge of Rs.163,135 due to non payment of electricity expenses on the due date, which was identified as a loss.	Payment of surcharges on electricity amounting to Rs.163,135 has arisen due to the inability to pay electricity bills on time due to lack of funds and the management has decided to pay electricity bills on time in the future.	Necessary steps should be taken to prevent such losses through proper financial management.

3.2 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
<p>The company was sued in years 2004 and 2007 by two outside persons claiming rights over two blocks of land 26.5 acres and 6 acres belonging to the Kahatagaha mine. Even though, the proceedings were not settled by the audited date of 31 December 2023. Further, eleven persons including three persons who worked in the mine are living illegally in quarters located in an area of 8 roods and 87 perches with in the mining areas and although efforts have been made at the Ministerial level to evict the illegal residents who have been resident illegally have not been able to evict even 31 December 2023.</p>	<p>Two proceedings regarding the ownership of the company's land are being heard in the Kurunegala court and the proceedings have not yet been concluded. The entity has taken various measures to evict the squatters, but still they are forcibly using the property of the entity. The felling of trees and clearing of property in the said acquired property has now been fully controlled with the help of the police.</p>	<p>Steps should be taken to settle the property owned by the company.</p>

3.3 Operational Inefficiencies

Audit Observations	Comments of the Management	Recommendation
(a) Although the company planned to mine high carbon graphite and increased the monthly production up to 85 metrictons, the monthly average production in the year under review was 37 metricton and the total production was 439.02 metric tons, Accordingly, the company was unable to reached the expected production targets.	<p>The main reason for not achieving the monthly target of 85 metrictons as expected was the flooding of the graphite pits due to the heavy rainfall. In this situation,the workers were employed to remove water from the under ground due to which production was disrupted and the monthly production was also reduced.The other reason is that the number of employees in the under ground is not sufficient to meet the targets and the recruitment of new employees has to be postpond due to the poor financial condition of the entity.However,at present these workshops are being restrored and the machinery is being rebuilt and the excavation capacity of those workshops is being increase.</p>	<p>Plans should be taken into consideration of the practical conditions and arrangements should be made to implement them as per plans.</p>
(b) Although the company's laboratory was established with the aim of carrying out value adding processes for graphite mineral, no related work was done there	<p>The necessity of value addition to the graphite have been identified by the entity, but due to the financial difficulties these</p>	<p>Necessary steps should be taken to initiate value addition processes for graphite</p>

and only the measurement of the percentage of carbon contained in the graphite samples prepared for export was done there. Until now the company had only exported graphite in the form of flakes(97%-99%) and chips (90%-92%) and had not done value added finished or semi-finished products.

activities are being neglected . However,the entity has indirectly contributed to the value addition by supplying minerals to the local producers engaged in this activity.

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| (c) | Since most of the stocks about 57 percent consists graphite with a low carbon percentage and provision of Rs.20.3 million was made to purchase a flotation machine and with the help of it to increase the carbon content of low carbon minerals and increase the income ,but that objective was not implemented as of 31 December 2023. | In order to increase the carbon percentage of low carbon minerals,the installation of the flotation machine is being carried out with the cooperation of the Treasury.The management has decided to install the machine in 2024. | Plans should prepared considering the practical conditions and operations should be promoted according to te plans. |
| (d) | According to the letter of the Secretary to the Ministry of Policy Planning & Implementation dated 15 October 2003, the Board of Directors had decided on 16 October 2003 to provide the necessary space for the Dodamgaslanda youth corps training centre from the land belonging to the Kahatagaha mine. Accordingly, the land was released in the year 2003 for a period of 3 years and as of the date of audit that period had exceeds 17 years , but the land is being used with out entering into a lease agreement or paying rent. | For the last 19 years the management of the entity had not been able to collect lease rent on the land given on lease basis for Dodamgaslanda youth corps training centre. | In order to enter into a lease agreement, steps should be taken to reach an agreement with the relevant parties, to act according to the agreement and to collect the arrears of rent. |
| (e) | Priliminary works of the second shaft to reach the first 1130 feet level to the 2000 feet level of the mine for the purpose of development works in the under ground were started a few years ago and a provision of Rs.8 million was made in the year under review, but no further work was carried out in this regard. | The excavation of the 2 nd shaft was planned to begin ,but due to lack of funds and the flood situation in the under ground the excavation of the 2 nd shaft had to be postponed.The economic condition of the company has also been severly affected by the electricity bills exceeded 33 lakhs from 12 lakhs. | Steps should be taken to expand the operations as per plans. |
| (f) | The company's coconut cultivation income of Rs.1,736,036 shown as miscellaneous income instead of being | About 102 acres of mining land is to be maintain and maintained by the entity and the profit | Material sources of income generating should be identified |

<p>recognized as a separate source of income. The related expenses were Rs.3,222,416 and the net loss was Rs.1,486,380.</p>	<p>(miscellaneous income) while maintaining the garden is not sufficient to cover its maintenance cost.</p>	<p>separately and accounted for. Should be conducted efficiently so that profit can be earned through coconut cultivation.</p>
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| <p>(g) The company's jeep which had been removed from use since 2006, was idle in the company's premises without being repaired and used or to dispose.</p> | <p>The board of directors has decided to repair the jeep and use the jeep ,but due to the financial difficulties the repair work has not been carried out and parked the jeep. The Management has decided to start the repair works in the near future.</p> | <p>Such assets may decay keeping unused for a long period of time and immediate steps should be taken to repaired and used or to disposed.</p> |
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3.4 Human Resources Management

Audit Observations

According to the approved cadre, the company should have a staff of 79 persons to be recruited on contract basis, there were 120 staff including 40 permanent staff, 73 on contract basis and 7 casual workers at the end of the year under review.

Comments of the Management

The Department of Management Services had approved a staff of 79 employees on contract basis in view of situation prevailing in 2007 when the mine was closed in 2006. However, in order to upgrade the mine and accordingly it is mandatory and necessary to recruit new employees based on the requirement of operating the mine. So the management has taken steps to expand the staff and new staff has been prepared and submitted for approval of the Department of Management Services.

Recommendation

Necessary staff should be approved and actions should be recruited employees accordingly.