

Lanka Phosphate Limited – 2019/2020

1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 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 Lanka Phosphate Limited as at 31 March 2020, 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 Auditor’s Responsibilities for 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:

- 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 greater 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 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 Financial Statements

1.5.1 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
In the stock physical verification the raw material stock shortage 1,039 MT which was valued of Rs. 1,383,069 of the raw material stock had not been taken into account and the profit for the year under review had exceeded that amount.	That such changes occur in the stock verification and have been corrected in the 2020 financial year.	The physical stock should be adjusted according to the physical verification balance and the stock should be properly accounted for.
(b) Although The forklift machine, which was valued of Rs .1,800,000 should have been accounted for under the Machinery category, the depreciation cost had been increased by Rs. 180,000 due to the accounting under the vehicle category.	That are being negotiated to be included in the correct category.	It should be accounted for under the machinery category and adjusted accordingly.
(c) Annual depreciation of Rs.18,015,775 of the building property, plants machinery and equipment of the company which included in the property, plants and equipment and internal roads which direct contributing to the production process had been accounted for under the administrative expenses.	That agreed with the observation.	Expenditure that directly contributes to the production process should be stated under production cost.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) No action had been taken to settle the debt balance of Rs. 497,518 which had been included in the debtor balance for several years and to recover the debtor balance of Rs. 2,475,958.	Although the Committee on Public Enterprises and the Department of Public Enterprises had recommended that the balance be deducted with the approval of the Board of Directors, it was not approved as the present Board of Directors could not take responsibility for the transactions of previous years.	Action should be taken by the management to settle long-standing debt balances and recover the relevant debtor balance.

(b) In the bad and thoughtful debtors of Rs, 10,568,004 there were a balance of Rs. 7,000,000 which has been existence since 2010, a balance of Rs. 1,237,280 which has been existence since the year 2014 and a balance of Rs.2,156,025 which has been existence since 2017. No action had been taken to recover or settle those balances

Although the Committee on Public Enterprises and the Department of Public Enterprises had recommended that the balance be write off with the approval of the Board of Directors, it was not approved as the present Board of Directors could not take responsibility for the transactions of previous years.

Management should act to settle long-standing debt balances and recover the relevant debtor balances.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 17,777,475 and the corresponding surplus in the preceding year amounted to Rs. 29,694,174. Accordingly, a decrease of Rs. 11,916,699 was observed in the financial result. The major reason for the decrease is the decrease in sales revenue and the increase in the factory and administrative overhead costs.

2.2 Trend Analysis of major Income and Expenditure items

	2019/2020	2018/2019
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	Rs.	Rs.
Sales revenue	510,003,580	530,974,642
Factory and administrative public works expenses	203,476,815	189,166,173
Other Income	36,323,614	34,197,330

Operating loss increased from Rs. 4,503,156 in 2018/19 to Rs. 18,546,138 in 2019/20 by Rs. 14,042,982. Although the company generated an annual loss from operations, the overall result was a surplus. This situation was due to the interest income on fixed deposits.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Comment of the Management

Recommendation

The Coconut Fertilizer Project which was started on 14 February 2014 with a capital expenditure of Rs. 21,226,633 and the project continues to run at a loss annually. Coconut fertilizer production in the year under review was 542.58 MT and the loss for the year was Rs. 7,214,236. Also, due to 11 persons including the Operating Manager who had been working on the Coconut Fertilizer Project has been transferred to Eppawala site since August 2019 and the raw material had not been provided, the production has not been done. As of 28 August 2020, the required number of workers had not been employed and production had been suspended for more than a year.

That the expected results could not be obtained.

Management should take action to bring the Coconut Fertilizer Project, which was initiated at a capital cost of over Rs. 21 million, to an active and productive level.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation

Comment of the Management

Recommendation

- (a) Although a new crusher was purchased in 2016 at a cost of Rs. 34,654,178 to supply fertilizer to meet the rising demand for fertilizer and to reduce the cost of fertilizer imports, the usage of the machine in production was kept to a minimum.

Agree with the observation and taking necessary action in accordance with the five year plan prepared on the instructions of the Ministry.

The management should take action to use the machine, which has been purchased at a cost of over Rs. 34 million, for effective production.

The average production of the machine is 40 metric tons per hour, from the year 2016 when it was purchased until 31 March 2020, the machine was used for production for only 103 days and the production was 15,337 metric tons. The retention amount of Rs. 4,386,358 due to the company that purchased the machine had not been released due to the machine not functioning properly.

- (b) Rs. 7,440,000 worth of spare parts purchased in 2014 to establish a new mill machine and The Mill Base part of Rs.

Agree with the observation and taking necessary

When purchasing machine parts, action should be taken against the officers

11,513,434 could not be used for any purpose due to lack of suitable place to install it.	action in accordance with the five year plan prepared on the instructions of the Ministry.	who have acted without regard to the possibility of installing the relevant machine parts and the management should take action to install and bring the relevant machine parts up to operational level as soon as possible.
(c) A CCTV camera system was installed at a cost of Rs. 2,885,000 in the year 2015 and Rs. 1,165,900 was spent on repairs from the year 2017 to 2020. But 15 cameras out of the 34 cameras installed were inactive.	That a committee has been appointed to identify the weaknesses and take the necessary services from a service provider and take further action.	Management should look into the possibility of repairing and bringing inactive cameras to a functional level, and ensure that management conducts an investigation into the officials responsible for purchasing substandard cameras.
(d) It was observed that two vehicles which the repairing cost at Rs. 4,700,000 and four motorcycles valued at Rs. 390,000 were out of order from 2018 and 2019. Although the motorcycles had not been used by anyone, had been spent Rs. 133,695 on revenue licenses and smoke certificates.	That will be used in the future.	Arrangements should be made to use suitable vehicles for driving.
(e) Although, It had been recommended to be removed and auctioned of the double cab No. 252-5963 valued at Rs. 2,200,000 on 07 January 2019, it had not been auctioned by 28 August 2020.	That action will be taken to revalue or remove because bids were submitted at the auction for less than the assessed value.	Action should be taken to dispose of the double cab with the relevant approvals.

3.3 Procurement

----- Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) According to paragraph 4.2 of the Procurement Guidelines, the Procurement Committee and the Technical Evaluation Committee had not regulated the progress of the Procurement Process and had not updated the Procurement Plan.	That the procurement plan will be updated in the future.	Procurement guidelines should be followed.
(b) The repair of the roof of the building and the construction of the security	Repair of crusher roof and construction of safety	The prospective procurement should be

fence of the building valued at Rs. 1,466,066 were not included in the procurement plan.

fence could not be included in the procurement plan as the management had identified it after preparing the budget. included in the procurement plan and the procurement plan should be amended accordingly.

3.4 Human Resources Management

Audit Observation

Comment of the Management

Recommendation

15 additional employees had been recruited on a daily basis for the post of Production Assistant and one officer for the post of Supply Officer by exceeding the approved cadre of the Company.

No answers

An inquiry should be conducted into the requiring staff in excess of the approved cadre and necessary action should be taken accordingly.

4. Accountability and Good Governance

4.1 Internal audit

Audit Observation

Comments of the Management

Recommendation

The chief Accounting Officer or an Accounting Officer should ensure that an effective internal mechanism exist to conduct an internal audit in terms of Section 38 (1) (f) of the Audit Act No. 19 of 2018. However internal audit mechanism has not been established.

No answers.

Act in accordance with the provisions of the National Audit Act.

4.2 Annual Action Plan

Audit Observation

Comment of the Management

Recommendation

According to the progress report of the action plan, the physical progress of 10 activities with an estimated cost of Rs. 40 million was as low as 10 percent to 40 percent.

That the planned tasks could not be performed during the year due to uncontrollable reasons.

Action should be taken to achieve the desired results from the activities planned to be implemented during the year.

4.3 Budget Control

Audit Observation

Comment of the Management

Recommendation

- | Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| (a) The variance between recurrent expenditure and actual expenditure in the two subjects was 75 percent, while the difference between budgeted capital expenditure and actual expenditure was 91 percent. | No answers | Measures should be taken to maintain expenditure within budgeted expenditure. |
| (b) The construction of the roof repair of the crusher building and the construction of the security fence of the company at a cost of Rs. 1,466,066 had not been included in the budget estimate and approved. | The crusher roof repair and construction of the safety fence could not be included in the annual budget as the management had identified it after preparing the budget. | All expenditure expected to be spent during the year should be included in the annual budget and the budget should be amended accordingly. |