

Kahatagaha Graphite Lanka Limited - 2017/2018

The audit of the financial statements of the Kahatagaha Graphite Lanka Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and statement of financial performance 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. In pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations of the performance of the Company which I consider should be presented to Parliament appear in this report.

1.2 Responsibilities of the Board of Directors for the Financial Statements

Board of Directors("Board") is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards Sri Lanka Accounting Standards (SLAS) 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.

1.3 Auditor's Responsibilities

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 (SLAUS) 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 judgement, including the assessment of the risks of material misstatements 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 the Board of Directors.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

02. 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 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on other Legal and Regulatory Requirements

I express the following matters in accordance with as expressed in Section 163 (2) of the Companies Act No 7 of 2007.

(a) Basis and scope and limitations for opinion are as expressed above.

(b) In my opinion ,

- that I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
- that the financial statements give a true and fair view of the financial position of the Company as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards. (SLAS)
- that the financial statements have been presented as per the requirements in section 151 and 153 of the Companies Act No 07 of 2007.

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

The following non-compliance was observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Public Enterprise Circular	
i. Chapter 8.3.9 of PED Circular No 12 dated 02 June 2003	Even though it is pointed out that the Public Enterprises should not incur expenses or provide resources for the Line Ministries or other Public Institutions in violation of which, Rs.4,903,395 had been paid as salaries and wages in respect of 10 employees posted to the Line Ministry during the period from December 2015 to November of the year under review.
ii. Chapter 3.5 of the Circular No 02/2013 dated 11 September 2013.	Even though Rs.14,899,666 should have been invested in the Gratuity Benefits Fund as at 31 March 2018,only Rs. 6,587,639 had been invested by the Company.
(b) Management Services Department's Letter No D.M.S/11G/09 dated 04 October 2007.	It had been informed that the recruitment of employees to the Institution is considered only subjecting it to a contract period and extending the contract period is considered on the profitability of the Institution. However,although the Administrative Circular No 25/2014 dated 12 November 2014 does not apply to companies,10 employees had been given permanent appointments from 01 November 2014 based on the said Circular.

03. **Financial Review**

3.1 **Financial Result**

According to the presented Financial Statements, the net pre-tax loss of the year under review was Rs.2,931,823 as compared with the preceding year net loss of Rs.2,522,041 and as a result of that, the financial result of the year under review recorded a deterioration of Rs.409,782. Although the sales revenue of the year under review had been increased by Rs.10,994,317, the stock shortage of Rs.21,342,087 had been cause of this loss.

04. **Operational Review**

4.1 **Performance**

Even though it had been planned to increase the annual mineral production from 775 metric tons to 900 metric tons in the Action plan of the Company, the actual production could not have been increased to more than 750 metric tons.