

## **Lanka Phosphate Limited - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Lanka Phosphate Limited (“Company”) for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the 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 information about the 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 2024 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for 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 responsibility for the financial statements is further described in the Auditor’s Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 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 of the Company 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 Auditor's Responsibility on 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 skepticism 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 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 has performed according to its powers, functions and duties,
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

## 1.5 Comments on the Preparation of Financial Statements

### 1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although rubber bush imported for grinding machines worth Rs.15,816,482 in the year 2022 was received also in that year, it had been accounted under advances without debiting to the account of normal stock.	Agree with the Audit Query. Although the stock of spare parts has been received by the company during the accounting year 2022/23, GRNs have not been issued and entered into the accounting system due to an investigation regarding these 200 rubber bushes. It was discussed in the audit and management committee meeting held in August 2024 and it was informed that a GRN should be issued for this purpose ad further investigations should be carried out. Accordingly, it is expected that after the meeting reports are received, GRNs will be issued to transfer this cost to “normal stock” as appropriately during the accounting year 2024/25.	The stock should be entered into the stock records and the expenditure should be properly accounted.
(b) The amount of Rs.3,450,000 paid for the preparation of the foundation required to install the grinding machines purchased in the year 2014 had been accounted under expired stock during the year under review.	An amount of Rs.7.44 million has been spent as an advance for locally supplied machine parts required for this machine and concreting the floor and as well as other work in progress for the installation work carried out in the year 2014. Rs.3.99 worth of machine parts from the items provided under the above advance amount has been used for that when the re-installation work is started in 2022. However, it has been stated that the remaining amount of Rs.3.45 million has been spent on concreting the floor and other work in progress. At the time of re-installation of this machine, the amount of Rs. 3.45 million spent above has not been accounted in the year 2022 due to the installation using concrete at a location other than the previously planned location. A formal committee has now been appointed by the Audit and management Committee to ascertain the facts to provide formal recommendations in this regard. It is expected to act accordingly.	Expense should be accounted.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivable Money

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The total loan balances to be recovered from more than five years was Rs. 6,701,486, which had been provisioned as bad debt, in the debtor balance of Rs.39,571,405 until the end of the year under review and these balances were not recovered until the date of audit.	Agree with this Audit Observation. The balance is about 15 years old. Out of the amount of Rs.9,770,006, which was in the beginning of the year, the amount of Rs.409,483 was recovered during the year. A balance of Rs.2,666,038 has been formally written off with the approval of the Ministry of Industry and the Ministry of Finance out of the balances related to government institutions. Accordingly, another balance nearly Rs. 6.6 million is to be settled. It is expected to discuss with the Board of Directors, the line Ministry and the Ministry of Finance in this regard and get an immediate action.	Receivable balances should be recovered.

### 1.6.2 Payable Money

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A crusher machine which was purchased in the year 2014 at an expenditure of Rs.35,867,000 was in idle in the company premises and Rs.4,386,358 related to the machine was also mentioned as an accrued expense from the year 2014 without settlement.	Agree with the Audit Query. The institution has not been able to correct the errors through the relevant supplier company based on the problems that arose regarding the payments at the final stage of the installation of this machine. Therefore, an amount of Rs.4.3 million, which was supposed to be paid to the contractor, has been retained. Furthermore, a decision has not been taken to release this amount to the tenderer and it has been decided to spend this amount and carry out the modernization of the machine. The approval of the Board of Directors has also been received and the necessary advices have been obtained from the legal divisions in this regard. Accordingly, the Engineers of the company are carrying out the reassembling work to bring this machine back into production by following procurement methods as not to interfere with the testing activities.	Payable balances should be settled.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a profit of Rs.239,414,825 and the profit of the last year was Rs.44,036,939 in correspondence to that. Accordingly, an increase of Rs.185,377,886 was observed in the financial result. The increase in the income of the company by Rs.533,938,717 was mainly affected for this growth.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The production of the Wariyapola coconut fertilizer project, which was began with a capital expenditure of Rs.21,226,633 in the year 2014, was stopped until 05 May 2021 and a loss of Rs.31.71 million had been occurred through the entire project. Further, the lease period of the land acquired on a five years lease basis for project works had expired on 05 September 2018 and although the production activities were maintained without renewal of the lease agreement, the company was prevented from entering the project site from 22 September by the land owning party and had not been settle the dispute.	Agree. It was hindered for the promotion of sales due to unable to make market changes competitively, unable to obtain expected fertilizer mix orders, increase in employee costs through hiring employees for the project, increase the total cost through unit production cost, unable to determine the price based on our cost because the government has decide a control price for coconut fertilizer mixtures, unable to het other raw materials like Urea, MOP as needed from the market, management decisions and requests of unions. The production and sales income increased and loss decreased severely under the new methods introduced by the management from December 2020, but these activities have also been hampered based on the policy decisions taken by the government regarding chemical fertilizers from April 2021. Our institution has already taken legal action through the Attorney General's Department regarding this building to acquire from the land owner. An amount of Rs.480,000, which had to be paid to the land owner as rent from June 2021 to September 2022, has been retained by our institution till now.	Action should be taken to settle the problem of the lease time period of the land.
(b) The ERP fertilizer sold by the company to CIC was retuned due to lack of the expected rock phosphate percentage of 393 Metric Tons. An idle expenditure of Rs.1,739,381 was incurred for that in the year	Agree with the Audit Observation. Basic investigations and legal proceedings have already started regarding the lack of the required standard in the rock phosphate produced in 2022. The Assistant Quality Controller at that time has also been suspended. Although additional costs may be incurred in the short	The prescribed production standard should be maintained.

under review as transportation expenses and loading rental expenses. The said ERP stock was mixed with high grade Eppawala rock phosphate and reprocessed during the period from 23 July 2023 to 07 August 2023, but it was not sold.

term, it is expected to maintain reputation of Lanka Phosphate Company as the company the own a monopoly in providing phosphates by considering the long term objectives of the company, existence and marketing plans and if the problem has arisen due to negligence, take action to recover that loss from that officers.

- (c) The Cabinet Memorandum No. 16/2012 dated 20 April 2012 submitted by the Ministry of Environment stated that the export of minerals in primary form is discouraged, but the company had arranged to sell the phosphate mineral at local prices to three buyers for export without value addition. Evidence was not submitted to the audit that proper formalities were followed in selling phosphates to those buyers. The company had sold 13,207 Metric Tons of phosphate to the three relevant buyers at local price and earned a revenue of Rs.343,382,000 (1 Metric Tone at Rs. 26,000 each).
- It was decided to export and discussed with all institutions in July 2023, but there was not informed or advised that the Cabinet decision is valid even in relation to phosphate. Due to court decisions and legal restrictions to supply rock phosphate only to the local market and expand the market until the beginning of the year 2023, attempts have been made since the year 2005 to identify value-added products, but that also has not been successful. The reduction of 50,000 Metric Tons to 30,000 M. Tons was a challenge to the financial situation and going concern of the company. It was decided to supply 30,000 Metric Tons of apatite to the 03 customers who had submitted requests as an initial step until a system is set up in the office of the Hon. Minister and the President on 27 July 2023 and approval was received for that at the 340<sup>th</sup> Board of Directors' meeting held on 27 July 2023.
- The process of adding value to the product should be implemented.
- (d) The spare parts worth Rs.3,975,998 purchased without evaluating the need for spare parts for the machinery plant had been retained unused in the warehouse of the company from many years.
- These Bull rings have been imported for 03 Roller Mill machines which are currently not in use in the company, but these mill machines are not in use since the year 2014. These spare parts are imported for TGM 160Mill-02. According to the TGM 160 Mill-01 installed in the year 2012, although goods were ordered for the new mill in the year 2014, these items have become unusable due to the technical changes made during the installation of the new mill. However, the mechanical division has informed that these items are expected to be used for the maintenance of the existing mill machines. Also, the unusable spare parts 03, which is not used now, are filed to formally remove. Also, efforts were made to find buyers for these items through IDB, but it was also unsuccessful. It
- The excess purchasing loss should be recovered.

will be hoped to get an immediate solution in future by discussing with the government institutions that are interested in this matter.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Scrap metal and disposed machine parts removed from use since many years were in insecurely in the premises of the Eppawala machinery plant and that materials were not properly disposed.	Places have been introduced at this time for the formal disposal of scrap iron and machine parts and as soon as scrap material is collected to call for a tender, arrangements will be made for formal disposal of them.	The machinery parts, which are removed from use, should be properly disposed.

### 3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
The company purchased a rubber bush unit used for mineral grinding machines at a price of Rs.350 each locally and used it for the machines until the audited date of 01 April 2024. 200 Units of rubber bush were imported for Rs.15,816,482 each at Rs.79,082 per unit on 17 December 2022 with indicating that the stock was zero while 81 units of the relevant goods were in the warehouse. Accordingly, the company had incurred a loss of Rs.15,746,482 due to the importation of the relevant items at a very high value which could have been purchased at a minimum cost of Rs.70,000 (Rs.350x200). This purchased stock was kept in idle in the warehouse without being used and not entered in the warehouse records till 01 April 2024 which was the audited date and 198 units of coupling bolts were also received during the purchasing in addition to the rubber bushes, but as these bolts cannot be used for anything, those were kept in idle.	<p>Agree with your Audit Observation</p> <p>An investigation is being at the institutional level and ministerial level regarding this purchase. The Commission to Investigate Allegations of Bribery and Corruption also conduct investigations. Also, as this issue is pending in the Supreme Court, comments will not be made at this time. Further action will be taken accordingly.</p> <p>However, actions have been planned to prevent such defects from occurring in future and it is planned to produce and purchase all machine parts and spare parts that can be purchased locally based on engineering recommendations and also to purchase spare parts that should be imported from abroad through international procurement methods.</p>	Disciplinary action should be taken against those responsible persons for illegal purchases. Stock should be used.

### 3.4 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The senior level officers of the company were suspended namely Operational Manager, Supply Officer from 18 July 2023, Marketing Executive from 12 January and Quality Control Officer at the secondary level from 26 April 2023 and except for the Marketing Executive, the company had arranged to give half pay to all the other three officers from the date of suspension. The above three officers had been paid half pay amounting to Rs. 901,805 by the company in the year under review in a situation where the relevant investigations had not been completed till the audited date.	02 Cases have been filed and pending in the Supreme Court regarding the violation of rights by the Operational Manager and Supply Officer. However, after asking about the possibility of giving half pay during the period of suspension and obtaining the approval of the Board of Directors in the 342 <sup>nd</sup> board meeting at the time of this case was called in the Supreme Court, the payment of half pay was done.	Necessary action should be taken to complete the relevant investigations immediately.

## 4. Accountability and Good Governance

### 4.1 Annual Performance plan and Progress

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although a provision of Rs.67.8 million has been allocated for the revised action plan prepared for the year under review, provision of Rs.7.2 million was allocated to fulfill the national requirement for phosphate fertilizers through an eco-friendly and modern process through that or to improve the existing accounting system.	Due to the failure of the method to produce Single Super Phosphate as a value added product, a certain amount of Rock Phosphate had to be exported to ensure the existence of the company. Furthermore, due to the lack of large scale TSP/SSP production through formal methods, it has been heard that some entrepreneurs have come forward to product SSP in the country on a personal level. eg – A manufacturing plant is being opened by the Lankem in Anuradhapura. However, due to more commitment and more time of the officers to plan the production and marketing activities based on the export market, the priority given to this had decreased and attention will be paid for it in future.	Duties should be planned and implemented in accordance with the Mission.