

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Phosphate Limited (company) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 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 material accounting policy information, 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 company as at 31 March 2025 and of its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

1.2 Basis for Qualified 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 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 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 Scope of Audit (Auditor's Responsibility on 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 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 Receivable and Payable Accounts

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The total loan balance which is recoverable more than five years and made provision as bad debt within the debtor balance of Rs. 54,360,240 at the end of year under review is Rs. 6,483,485 and these balances had not been recovered even by 15 September 2025.	Agreed. These recoverable balances are old about 16 years and prima facie; it appears as reporting and accounting errors. A sum of Rs. 211,000 from the value existed at the beginning of the year could be recovered within the year and accordingly, the action is being taken to settle another balance of about Rs.6.4 million.	The action should be taken to recover the recoverable balances.

1.6 Non-Compliance with the laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
Public Enterprises PED 1/2015 dated 25 May 2015 and No. PED 1/2015(ii) dated 14 January 2022	(i) Even though the approval of the Secretary of line ministry should be obtained for the additional fuel expenses of Chairman also, it had been informed that there is a possibility of disbursement the additional fuel expense of the Chairman of Lanka Phosphate Company considering the distance as per the letter of Director General of Department	Agreed. The step will be immediately taken after discussing at the next meeting of Board of Directors.	The step should be taken to recover the money paid additionally for extra fuel and the disciplinary action should be taken against the officers who had made the payments without approval.

of Public Enterprises dated 18 April 2023 by submission to the Board of Directors. However, 971.6 fuel litres at a cost of Rs. 298,759 had been obtained by exceeding the approved fuel limit of 145 litres from July 2024 to September and from February 2025 to March by the Chairman of company without obtaining said approval.

(ii) 875.5 litres of fuel with a value of Rs. 261,085 had been obtained by exceeding approved monthly fuel limit of 145 litres in May and December 2024 and from January 2025 to March by General Manager of company without approval of the Board of Directors. - Do - - Do -

2. Financial Review

Financial Result

The operating result in the year under review was a profit of Rs. 330,881,227 and correspondingly, the profit in the preceding year was Rs. 239,414,825. Accordingly, an improvement of Rs. 91,466,402 in the financial result was observed. The reason for this improvement is increase of Eppawala Rock Phosphate income by Rs. 225,845,785 though there was a decrease in sales income of High Grade Eppawala Rock Phosphate (HERP) without bags by Rs. 139,787,680.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The manufacturing activities of Wariyapola Coconut Fertilizer Project commenced with a capital expenditure of Rs. 21,226,633 in 2014 had been	Agreed. Even though this project had shown a favorable progress within first two years, after that, the expected results couldn't be	The steps should be taken to immediately solve the issues on lease periods of land

halted up to 05 May 2021 and a total loss of Rs. 31.71 million had continuously occurred during that period. Furthermore, the manufacturing activities had been maintained without renewal the period of lease of the land obtained on 05 years lease basis for the project activities. Therefore, the owner of the land had prevented the company to enter into the project area since September 2022 and no action had been taken to settle such disputes.

achieved. The measures had been already taken to get legal action through Attorney General's Department in this regard. In addition, a complaint had been lodged in Bribery Commission by us pertaining to this matter on 04.09.2025 and accordingly, the investigation had been started. Moreover, a sum of Rs. 480,000 payable to the land owner as lease rental from June 2021 to September 2022 had been retained by our institute up to now and it had been decided by Board of Directors to release such money after reaching to a concurrence with him.

and the disciplinary action should be taken against the officers who had not acted to renew the lease period of the land.

Measures should be taken to utilize the capital expenditure incurred productively, rather than discarding it as an idle expenditure.

(b) The spare parts worth of Rs. 6,679,768 purchased at several occasions from 2012 to 2022 without an evaluation of the requirement of spare parts required for plant had been idle in the stores without utilization.

Even though the action had been taken to properly remove or sell the spare parts belonging to unused 03 Roller Mill machines, there is no adequate demand for the parts of said machines and therefore, it did not succeeded. In due course, it is expected to obtain a speedy solution after discussing with the public institutions which pay interest on this matter.

The money incurred should be recovered from the officers in relation to these unnecessary purchases after conducting an inquiry.

(c) The action had not been taken to dispose the condemned iron disposed and the machinery parts removed from the usage since many years and those had been laid unsafely in Eppawala machinery premises.

The places had been identified so far to formally dispose the iron removed and the machinery parts and the action will be taken to formally dispose those as soon as adequate condemned items will be collected for calling a tender.

The machinery parts removed from usage should be formally disposed.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) In the event of not allowing to export the apatite mineral used for the fertilizer industry as mentioned in the paragraph 4 in the Cabinet Memorandum No.16/2012 dated 20 April 2012 of the Minister of Environment, 29975 metric tons of Rock Phosphate had been sold for an amount of Rs. 772,017,500 within the years 2023 and 2024 to 03 companies in the private sector selected by Lanka Phosphate Company with an objective of export. In accordance with the export data obtained from the Geological Survey and Mines Bureau, this rock phosphate stock had been exported for a higher price of Rs.1,300,329,759 by relevant 03 companies.</p>	<p>It had been decided at the discussion held in the Presidential Secretariat under the patronage of Hon. Minister, Secretary of Ministry of Environment, Secretary of Industries and the officers of Geological Survey and Mines Bureau on 27 July 2023 to award an apatite quantity of 30,000 metric tons to 03 buyers to whom the requests had been made at that time as an initial step until a methodology will be formulated and the approval had been granted for that at the 340th meeting of Board of Directors held on 27 July 2023.</p>	<p>The action should be taken to conduct an inquiry on taken measures for exporting apatite mineral in a situation where it is not permitted to export and provide an opportunity to earn unusual profit to other party and the measures should be taken accordingly.</p>
<p>(b) Even though the stock of diesel was 1000.5 liters as per the stores documents at the annual stock verification carried out at the end of 2024, 714 liters of diesel was physically available and there was a shortage of 286.50 liters.</p>	<p>This had occurred due to a technical error in the fuel pump established in Eppawala. Since the fuel is completely provided only for the vehicles of company, a loss will not occur through that. However, since a new fuel distribution machine had been already established in Eppawala work site, it is informed that this issue had been already solved.</p>	<p>After conducting an investigation in relation to the shortage, the measures should be taken in compliance with that.</p>

- (c) In the inspection of the laboratory reports issued pertaining to the daily production by the laboratory for June 2024, Rock phosphate production (ERP) which should be produced with P₂O₅ of a standard percentage of 28 percent there were instances where the production was with P₂O₅ of standard percentage of about 33 percent. Since 01 metric ton of ERP manufactured with 33 percent of P₂O₅ value is worth Rs. 28,202 and 01 metric ton of ERP manufactured with 28 percent of P₂O₅ value is worth Rs. 23,600, it couldn't be excluded in the audit that a financial loss had occurred to the institute through sale of rock phosphate with standard value of about 33 percent or the standard value is more than 28 percent.
- It had been informed by the production divisions that the inherent limitations affect for the existence of the variations in P₂O₅ composition of the rock phosphate manufactured by institute. However, the institute is taking action to minimize these limitations by using novel technological equipment and methods and the provisions required for that had been already made.
- The economic advantages should be maximized by efficiently and effectively utilizing the resources of the institute and a new methodology should be introduced in order to minimize these limitations.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>200 units of rubber bush had been imported at a cost of Rs. 15,816,482 by each Rs. 79,082 on 17 December 2022 by mentioning that the stock is zero while 81 rubber bushes used for mineral grinding machines purchased at a cost of Rs.200 each were available in the stores. Accordingly, a loss of Rs. 15,776,482 had occurred to the company through import of relevant item stock which could have been purchased under a minimum cost of Rs. 40,000 at very higher price. This stock had been kept idle without utilization even up to the date of audit which was 15 September 2025 and though 198 units of coupling bolts had been received with that in addition to such rubber bushes in the</p>	<p>Agreed. The investigations are being conducted in the institutional level and by the Commission to Investigate of Allegations for Bribery or Corruptions in relation to this purchase. Accordingly, the action will be taken to get further measures with regard to this issue based on such reports also. However, the action had been taken not to occur these deficiencies in the future.</p>	<p>The disciplinary action should be taken against responsible parties in this regard and the step should be taken to recover the loss occurred to the institute.</p>

purchase, those bolts were no useful to the relevant machine and those bolts had been kept idle also.

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>The Operational Manager and Supply Officer who are the officers in the senior level of the company had been interdicted with effect from 18 July 2023 and paid half salaries since that date. At the end of 2024, the half salaries of Rs. 1,952,234 had been paid and no step had been taken by company to complete the relevant investigation even by 15 September 2025. However, a cost of Rs. 2,768,883 had been incurred for 116 disciplinary inquiry sessions.</p>	<p>02 cases had been filed on violation of the rights in the Supreme Court by Operational Manager and Supply Officer and those cases are being heard presently. But the payment of half pay had been made subsequent to obtaining the approval of Board of Directors at 342 meeting of Board of Directors for that after inquiring the possibility of providing half pay within the period of interdiction at calling this case in the Supreme Court. The existing management had taken measures to expedite the inquiries but we have no possibility of quickly completing those due to the nature of those inquiries, uncontrollable matters and the legal background. Therefore, the company had to face the additional expenses. The steps will be taken to find the alternative solutions for deduction these expenses in the future.</p>	<p>The action should be taken to promptly complete the relevant investigation and minimize the expense.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Even though the activities such as entering into foreign market as direct or indirect exporter, renovation of the laboratory building and Eppawala</p>	<p>Since the meetings of Board of Directors had not been conducted up to February 2025 subsequent to the Presidential and General Elections, a</p>	<p>The measures should be taken to implement the activities in compliance with the</p>

official residencies under development of the infrastructure facilities, establishment of a new weigh bridge and transferring the building Wariyapola premises to Eppawala plant, purchase of vehicles for the operational activities in Eppawala site and replacement of the accounting package, development of existing camera system and preparation an environment for the growth of industries should be performed within the year in the examination of the Action Plan amended in 2024/2025, said activities had not been carried out within the year in examination of the Annual Report of the company.

large number of activities planned had to be postponed. Therefore, some activities had to be cancelled and some activities had to be included in the Action Plan 2025/2026.

Action Plan.