Lanka Salt Limited – 2017

The audit of financial statements of Lanka Salt Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive income statement, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My observations on the performance of the Company which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

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. 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 misstatement 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 management, as well as evaluating the overall presentation of financial statements.

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

1.4 Basis for Qualified Opinion

(a) A mineral tax amounting to Rs.27,828,598 paid to the Southern Provincial Council in the year under review and the previous 2 years had been identified under current assets as mineral tax receivable as at 31 December 2017, based on a case filed in the Supreme Court against the said Provincial Council for the recovery of the said mineral tax. However, it was observed that the Company had no assurance of the ability of recovering the said sum.

(b) A stock of 17,524 metric tons of industrial salt valued at Rs.283,803,105 manufactured by the Company in the year 2016 and purchased from external parties in the year 2017 had been included in the closing stock as at 31 December 2017. Even though this stock which had been confirmed by laboratory tests to be of sub-standard had been maintained without being able to sell or utilize in other intended purposes, provisions for impairments had not been made in the financial statements.

(c) In terms of paragraphs 4.4 and 4.5 of Section 4 of the Standard, an entity shall present cash assets realized within 12 months after the reporting date, under current assets and cash assets realized within a period exceeding 12 months of the closure of the year of accounts under non-current assets. However, fixed deposits amounting to Rs.241,336,993 realized within a period less than a year had been shown under non-current assets..

(d) In terms of paragraph 17.19 of Section 17 of the Standard, the useful life of current assets had not been reviewed annually. As such, assets costing Rs.142,975,659 as at 31 December 2017 had been fully depreciated. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error occurred, in terms of paragraphs 10.15 and 10.18 of Section 10 of Sri Lanka Accounting Standard for Small and Medium- sized Entities

(e) According to paragraph 20.13 of Section 20 of the Standard, motor vehicles and land masters obtained on lease basis amounting to Rs.29,856,170 had been shown under property, plant and equipment instead of showing separately under lease property.

(f) In terms of paragraph 29.16 of Section 29 of the Standard, in recognizing the deferred tax asset, all deductible temporary differences should be considered. However, in deciding the deferred tax asset by the Company, grants and subsidies not liable to tax had been recognized as a deductible temporary difference. As a result, the deferred tax liability of the Company is understated by Rs.9,945,892 and the deferred tax income had been overstated by the same amount.

(g) According to the Accounting Policies of the Company, the annual percentage of depreciation of plant and machinery stood at 10 per cent. However, pumps and accessories coming under plant had been depreciated at 20 per cent each and as such, the expenditure on depreciation of the year under review is overstated by Rs.1,255,304 and the assets of the Company had been understated by that amount.

(h) According to the Accounting Policies of the Company, aid received for payment of employees' compensation should be deducted against the relevant expenditure. Accordingly, the receipt of aid should be identified as an income of the relevant year. However, the aid of Rs.4,259,917 received for payment of employees' compensation had been indicated under non-current assets in the financial statements since many years.

(i) The financial statements had been prepared by using the stock of salt existed according to the book value instead of the stock of salt that existed as at 31 December 2017 according to the physical verification. As such, the profit of the Company for the year 2017 and the current assets of the Company as at 31 December 2017 had been overstated by Rs.186,446,426.

(j) The expenditure of the Company on Nation Building Tax amounting to Rs.29,999,726 relating to the year 2017 had been shown in the income statement by deducting from the gross sales income instead of showing under sales expenditure.

(k) A difference of Rs.59,067 was observed as at 31 December 2017 between the value of physical stocks of empty packing and the book balance.

(l) Audit evidence indicated against the following Items of Accounts had not been made available to Audit.

	Item of Account	**Value** **Rs**	**Evidence not made available**
(i)	Contractor Payables (CECB)	38,339,359	Documents of confirmation and Letters on Confirmation of Balances and the agreement entered into with the relevant party
(ii)	**Other Payable Deposits**		
	• Moneys received from PERC	1,649,500	Documents of Confirmation and Age Analyses
	• Allocation for Regional Tax	1,073,837	
(iii)	**Deposits Payable**		
	• Refundable Deposits	3,632,645	
(iv)	Grants and Subsidies (Moneys received from ICCIDD)	35,521,037	

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial position of Sri Lanka Salt Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities.

2.1.1 Report on other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

(a) The basis of audit opinion and the scope and limitations of the audit are as stated in this report.

(b) In my audit opinion,

-I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company,

-the financial statements of the Company comply with the requirements of Sections 151 and 153 of the Companies Act, No. 07 of 2007.

3. Financial Review

3.1 Financial Results

The financial result of the year under review was a profit of Rs.324,253,841 as compared with the corresponding profit of Rs.697,848,617 for the preceding year. Accordingly, a decline of Rs.373,594,776 was observed in the financial result. The decrease in the income from sales by Rs.437,358,223 and the increase in cost of sales by Rs.110,500,299 in the year under review had mainly attributed to the above decline.

In analyzing the financial results of the year under review and 3 preceding years, a profit of Rs.75,108,000 had been earned in the year 2014 and it had increased up to Rs.324,254,000 by the year 2017. Nevertheless, after considering the employees' gratuity, depreciation for non-current assets and tax paid to the Government, the contribution of Rs.436,050,000 of the year 2014 had been Rs.1,223,815,000 by the year 2017.

3.2 Analytical Financial Review

According to the information presented, several significant ratios of the Company for the year under review and the preceding year are shown below.

Ratios	2017	2016
Gross Profit Ratio (per cent)	38.67	58.58
Net Profit Ratio (per cent)	22.14	36.69
Earnings of a part (Rs.)	92.64	199.38
Income for one employee (Rs.)	880,269	1,652,585
Current Assets Ratio (Number of times)	1.78	0.74
Quick Assets Ratio (Number of times)	0.4	0.3

The following observations are made.

(a) The Gross Profit Ratio of the Company had decreased by 20 per cent due to the increase in sales expenditure in the year 2017 as compared with the year 2016. The Net Profit Ratio had decreased by 15 per cent in the year 2017 and the increase in distribution expenses, administration expenses and other expenses of the Company had mainly contributed therefor.

(b) The earnings of a part had decreased by Rs.106.74 due to decrease in the after tax profit of the Company in the year 2017 as compared with the year 2016.

(c) The income of an employee had decreased by Rs.772,316 or 47 per cent due to the increase in the actual cadre and the decrease in income of the Company in the year 2017 as compared with the year 2016.

(d) The Current Assets Ratio of the Company had increased by 1.04 due to the increase in the stock in the year 2017 as compared with the year 2016. However, the increase in the Quick Assets Ratio had been only 0.1. As such, it was observed that the management of working capital of the Company had not reached an optimum level.

(e) Sums of Rs.25,984,581 and Rs.25,639,398 had been spent in the year under review as publicity expenses and Sales Target expenses under distribution expenses respectively. However, the income from sales of the year had decreased by 23 per cent. The expenditure on salaries and wages under distribution expenses had increased as well by 31 per cent in the current year.

3.3 Legal Action instituted by the Company

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The Company had filed a case in the Supreme Court against the Provincial Commissioner of Revenue (Southern Province) and the Director of the Geological Survey and Mines Bureau relating to recovery of 0.5 per cent of the annual income as mineral tax while 05 employees previously employed in the Company had filed cases against the Company in respect of following disciplinary action.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) According to the Action Plan for the year 2017, the Company had not taken action to prepare a performance report for evaluating the performance.

(b) A Procurement Plan and a Procurement Time Schedule had not been prepared relating to salt and other goods and services purchased by the Company.

4.2 Operating Activities

In the maintenance of Registers on Industrial Salt of the Company, daily receipts are updated based on the number of tractor loads and in the issue of salt stocks to the manufactory, the weight is measured by the weight bridge and that quantity is updated as issue of stocks. The difference occurred there had been identified as wastage of industrial salt. According to monthly sales and stock records, a wastage of 6,614 metric tons had been so identified during the year 2017 and as at 31 December 2017, it was about 10 per cent of the quantity of the industrial salt stock. The Company does not follow a proper method of identifying wastage of industrial salt. Moreover, the wastage identified as above had been the difference arisen due to updating receipts and issue of industrial salt according to two methods. As such, it was not observed whether it had been an actual wastage.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) The following observations are made in respect of the constructions of the Koholankala Vaporization Pool Project constructed on a land of 20 acres in extent.

(i) Even though the relevant constructions had been carried out by an external party, a proper agreement had not been entered into and the sand and soil removed in constructing the pools had been given to the relevant contractor so as to set off against the amount payable. However, it had not been properly agreed on the quantity thereof.

(ii) In terms of Letter of Terms and Conditions dated 03 October 2007, quotations had been shown as Rs.1,500 and Rs.200 for 1 cube of sand and 1 cube of soil respectively on a value much less than the prevailing market value and the contractor had removed the sand and soil on the said quotations. Moreover, it was observed that records on the sand, soil and other material removed by the contractor are not maintained.

4.4. Uneconomic Transactions

The following observations are made.

(a) Expenses of Rs.271,469 and Rs.7,444,817 had been incurred respectively on raw materials and staff in the year 2017 for the coconut cultivations maintained in the Mahalevaya and the Bundala Saltern shown under biological assets in the financial statements of the Company. The income received from those cultivations in the year under review was only Rs.198,900. As such, it was observed that the expenditure incurred on maintenance activities of the coconut cultivations had been an uneconomic expenditure.

(b) A penalty of Rs.737,100 had to be paid in the year 2017 as a result of non-payment of lease rents on due time for the Mahalevaya in the year 2016.

4.5 Staff Administration

The following observations are made.

(a) In terms of Section 9.2 (d) of Public Enterprises Circular No. PED/12 dated 02 June 2003, the organizational structure and the approved cadre of the Company should be registered in the Department of Public Enterprises of the General Treasury. However, action had not been so taken.

(b) In terms of Section 9.2 (j) of the said Circular, the approved cadre of the Company should be included in the Corporate Plan. However, the approved cadre of the Company had not been shown in the Corporate Plan prepared for the period from the year 2017 to the year 2020.

(c) In terms of Section 9.3.1 of the aforesaid Circular, a Scheme of Recruitment and Promotion relating to the Company and in terms of Section 9.14 thereof, a Manual on Human Resources Management had not been prepared.

(d) The position on the cadre of the Company relating to the years 2016 and 2017 appear below.

	As at 31 December 2017				As at 31 December 2016			
	Approved Cadre	Actual Cadre	Excess Cadre	Vacancies	Approved Cadre	Actual Cadre	Excess Cadre	Vacancies
Staff	71	53	05	23	63	44	04	23
Non-Staff	588	526	46	108	410	396	35	49
Junior	755	1085	411	81	563	711	208	60
	1414	**1664**	**462**	**212**	**1036**	**1151**	**247**	**132**

The approved cadre of the Company which stood at 1,036 in the year 2016 had been increased by 378 employees up to 1,414 in the year 2017 by the Board of Directors while the actual cadre had increased by 513.

(e) According to the manpower structure, the excess cadre of the Company as at 31 December 2017 stood at 462 and that excess cadre comprised of 31 permanent employees, 07 casual employees and 424 seasonal employees. According to the manpower structure, the number of vacancies of the Company stood at 212 as at that date. It was further observed that seasonal employees were deployed in service in excess in almost every Division including the Administration Division, Accounts Division and the Internal Audit Division of the Company.

4.6 Market Share

A timely market research had not been carried out for deciding the market share of the Company.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of “Year 2030 Agenda” of the United Nations on sustainable development and the Company had not been aware of the manner in performing the functions that come under its scope relating to the year under review.

As the Company had not been aware of the 2030 Agenda, action had not been taken to identify sustainable development goals, targets and the focal points in achieving those targets and the indicators in evaluating the performance in achieving those targets.

6. Accountability and Good Governance

6.1 Procurement and Contract Processes

6.1.1 Procurements

The following observations are made.

A quantity of 13,515.52 metric tons had been purchased at a cost of Rs.268,637,460 from external parties by the Company during the year 2017 without carrying out a requirement analysis, a production analysis or a potential analysis relating to the future requirement of salt of the Company. The following observations are made in that connection.

(i) Suppliers had been selected without following the procurement process properly and the receipt of salt stocks to the Company even before the commencement of the procurement process had been a controversial issue.

(ii) In testing samples of salt of selected suppliers, it had been confirmed by laboratory tests that they were in compliance with standard specifications. However, according to the sample test carried out after receiving salt stocks, it was observed in 3 instances that there were gypsum and oysters and in one instance, there was mud in 2 stocks of industrial salt and that no laboratory test had been carried out relating to another two stocks of industrial salt even by 31 December 2017.

(iii) Out of the quantity of 13,515.52 metric tons of sub-standard salt purchased, 10,859 metric tons of salt valued at Rs.207,558,660 had been included in the closing stocks of the Company as at 31 December 2017 and it was observed in the physical verification that this stock as well was under damages due to being subjected to rain.

(iv) Even though sub-standard salt had been received to the Company, the Technical Evaluation Committee and the Procurement Committee had not taken any measures thereon whatsoever and the suppliers had been paid with the full amount of the contract amounting to Rs.268,637,460.

6.2 Delayed Projects

The constructions of a building carried out even before the year 2012 had been abandoned halfway after incurring an expenditure of Rs.1,239,749.

7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time and special attention is needed in respect of the following areas of controls.

	Areas of Systems and Control	Observations
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(a)	Accounting	Failure in preparing financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities and the Accounting Policies of the Company.
(b)	Procurements	Purchase of sub-standard salt stocks from external parties without following a proper Procurement Process.
(c)	Staff Administration	Non-implementation of a proper administration of staff in the Company