

**1.1 Qualified Opinion**

-----

The audit of the financial statements of the Lanka Salt Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 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 report 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

**1.2 Basis for Qualified Opinion**

-----

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 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 for Small and Medium-sized Entities (SLFRS for SMEs), 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 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 for 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 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 Financial Statements

### 1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Documentary Evidences not made available for Audit

The following observations are made.

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Grant and subsidies	30,198,321	Balance confirmation and other confirmation documents.	A grant from ICCIDD to build up a new iodine plant on account of buildings and machines. This grant is depreciated by the fixed asset depreciation rate and	Adequate corroborative evidences need to be maintained on the balances in the Financial Statements.

write off to the profit and loss account.

(b)	Contractor Payables	38,339,359	Contractor agreement and Balance confirmation	This is a retained amount due to the construction of new buildings were not in proper standards. Then the payable value was negotiated to Rs. 20 million. But the Payments was not done due to the renovations were not done as agreed.	Adequate corroborative evidences need to be maintained on the balances in the Financial Statements.
(c)	Trade Payables	41,128,143	Balance confirmation	Requesting letters to relevant creditors have been sent already.	The balance confirmation letters need to be collected for the balance due at the end of the accounting year.

**1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
---	----------------	--------------------	----------------

(a) Public Enterprises  
Circular No. PED 03/2015 dated 17 June 2015

(i) Paragraph 2.2	According to the categories of companies mentioned in the circular, the company falls under the “F”. Payment of allowances to Chairman, Board of Directors of such State-Owned Enterprises shall be decided by the respective Board of Directors with the recommendation of the Secretary to the Line Ministry and the	Lanka Salt Limited is a company incorporated under the companies Act No. 07 of 2007. The decisions pertaining to the operation of the Company and policy decisions are taken by the Board of Directors. Company has not yet adopted the public Enterprises circulars for its affairs.	Companies in which the Government holds more than fifty per cent of the shares are state – owned companies. According to the circular provisions, these companies should comply with the circulars of Department of Public Enterprises of General Treasury. If it is operating outside these circulars, the approval of relevant department need to be
-------------------	--	---	--

	Concurrence of the Hon. Minister of Finance. However, without such recommendation, monthly Salary allowance of Rs.125,000 and Rs.115,000 had been paid by the Company to Chairman and Executive Director respectively.		obtained.
(ii) Paragraph 2.5	Although the Chairman, Board Member, Executive Director, Working Director or Observer who covers up duties of a permanent position in the same entity cannot be paid any additional payment. However, the Company had paid a Rs.10,000 and Rs.20,000 monthly entertainment allowance to the Chairman and Executive Director respectively.	Same reply is applied.	-Do-
(iii) Paragraph 2.10	PAYE tax and Withholding tax on monthly allowances and sitting allowances to the Chairman and Directors had not been deducted.	Steps have been already taken according to the Inland Revenue Act No. 27 of 2017.	Provisions of the Inland Revenue Act need to be complied.
(iv) Paragraph 2.11	Although the Chairman and Executive Director are not entitled for the sitting allowance, the Company had paid of Rs.25,000 for a meeting as sitting allowance.	This matter has to be discussed with the Board of Directors since it has been the Company practice.	Circular provisions need to be complied.
(b) Employees' Provident Fund Act Section 11	Although the employer cannot increase the employee's contribution as the EPF Act which is 8 per cent without the approval of Commissioner of Labour,	Arrangements will be made to obtain an opinion from the commissioner General of Labour in this regard.	The provisions of the Employees' Provident Fund Act need to be complied for the increasing the contribution rate.

the company had increased that to 10 per cent.

## 2. Financial Review

-----

### 2.1 Financial Result

-----

The operating result of the year under review amounted to a loss of Rs. 2,826,496 and the corresponding profit in the preceding year amounted to Rs. 324,253,841. Therefore, a deterioration amounting to Rs. 327,080,337 of the financial result was observed. The reasons for the deterioration are decrease in revenue by Rs. 142,285,379 which is deduction of 10 per cent and increase in cost of sales by Rs. 253,022,838 which is increase of 28 per cent.

## 3. Operational Review

-----

### 3.1 Operational Inefficiencies

-----

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
-----	-----	-----
(a) There was non-moving items at general stores amounting to Rs.11,624,867 for more than 2 years.	We also maintain additional Inventory of other types of equipment needed for pumps that we currently have. If there are stocks are not currently in need, action will be taken.	Actions need to be taken to buy according to needs of the Company and maintain proper stock control.
(b) According to the company's records, as at 31 December 2018, 13 heaps which is 3,136 Metric Tons of salt had remained as non-moving in Bundala, Palatupana and Mahalewaya.	The product is marketed based on the demand and the quality of the Salt. The prices offered by the external buyers and the nature of the sale of salt in the market at that time determines the supply of the salt to the market.	Actions need to be taken to maintain an efficient and effective inventory control.

### 3.2 Idle or underutilized Property, Plant and Equipment

-----

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
-----	-----	-----
4 machines for the manufacture of table salt purchased from an	Due to problems encountered in using these 4 machines, those	Steps need to be taken to properly identify the

Indian company for Rs.24,671,591 in 2011 had remained idle in the factory. were not used until they were corrected. Salt environment is one of the main reasons for this. Steps have been taken to use these machines in the future. requirement of purchases are correctly manage them.

### 3.3 Procurement Management

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
(a) In terms of 4.2 of Government Procurement Guidelines, Master Procurement Plan for the company for at least three years and Annual Procurement Plan for the year under review had not been prepared and approved.	Comments had not been made.	Actions need to be taken to prepare and approve the Master Procurement plan and Annual Procurement Plan.
(b) The total cost estimates for each of the procurement activities of the company had not been prepared and sanctioned in terms of 4.3 of Government Procurement Guidelines.	Comments had not been made.	Actions need to be taken to prepare and sanction the total cost estimates for each procurement activity.
(c) The company had not been fulfilled the requirements of publication of eligibility requirements of the bidder, granting a minimum period of 21 days for submission of bids and requesting the bid securities as specified in the Procurement Guidelines for the purchase of motor vehicles and equipment for a cost of Rs.17,197,500 during the year under review.	Comments had not been made.	The provisions of the Government Procurement Guidelines need to be complied by the company in carrying out the procurement activities.
(d) It was observed that the proper procurement	Comments had not been made.	The provisions of the Government Procurement

procedures had not been followed when purchasing the inkjet printer, Platform scale and crew cab.

Guidelines need to be complied by the company in carrying out the procurement activities.

### 3.4 Human Resources Management

----- <b>Audit Issue</b> -----	----- <b>Management Comments</b> -----	----- <b>Recommendation</b> -----
(a) The organizational structure and the approved cadre of the company had not been registered in the Department of Public Enterprises of General Treasury in terms of Section 9.2 (d) of Public Enterprises Circular No.PED/12 dated 02 June 2003. In terms of section 9.3.1 of the said 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.	Comments had not been made.	Actions need to be taken according to the provisions of relevant circular.
(b) Due to lack of staff with the concurrence of the Department of Public Enterprises as per above “a”, the Board of Directors had approved the new staff annually. Accordingly, the staff which stood at 1036 as at 31 December 2016 had been increased by 744 employees upto 1780 as at 31 December 2018. The reasons for the increase in staff had not been revealed in the audit. However, according to the manpower structure of the company as at 31 December 2018, the excess cadre stood at 368 and number of vacancies stood at 384.	Comments had not been made.	Actions need to be taken to approve required staff by a proper staff evaluation and identification and maintain a proper staff administration.



#### 4. Accountability and Good Governance

-----

##### 4.1 Corporate Plan

-----

<b>Audit Issue</b> -----	<b>Management Comments</b> -----	<b>Recommendation</b> -----
Although the company had prepared a corporate plan for the period 2017 to 2020 as per the Public Enterprises Circular No.PED/12 dated 02 June 2003, that plan had not been revised as a rolling plan for the year 2018 and it had not been included approved cadre, a review of the preceding three years operating results and the current resources available to the company.	Comments had not been made.	Corporate plan of the company need to be prepared in terms of the Circular.

##### 4.2 Annual Action Plan

-----

<b>Audit Issue</b> -----	<b>Management Comments</b> -----	<b>Recommendation</b> -----
The company had not prepared an action plan for 2018.	Comments had not been made.	Action plan needs to be prepared.

##### 4.3 Sustainable Development Goals

-----

<b>Audit Issue</b> -----	<b>Management Comments</b> -----	<b>Recommendation</b> -----
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.	Comments had not been made.	Company need to comply with the “Year 2030 Agenda” of the United Nations on Sustainable Development.

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.