Lanka Salt Ltd - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Salt Ltd. ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended including 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 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

1.2 Basis for Qualified Opinion

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

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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
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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 and for such internal control as management determines 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 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, 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 Non- compliance with Sri Lanka Accounting Standards for Small and Medium – sized Entities

	Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a)	According to Section 4.2 of the Standard, biological assets should be included as a line item in the statement of financial position. Nevertheless, biological assets of the Company, valued at Rs.29,194,415 had been indicated under property, plant and equipment as at 31 December 2019.	It is agreed to indicate the biological assets as a separate line item in the statement of financial position. Action will be taken to implement it in the preparation of final accounts -2020.	Action should be taken in terms of provisions of the Standard to indicate biological assets as a line item in the statement of financial position.
(b)	In terms of Section 13.4 of the Standard, inventories should be measured at the lower of cost or net realized value or whichever is less and indicated in the financial statements. However, the Company had not estimated the net realized value of inventories and the cost thereof amounting to Rs. 490,455,118 had been indicated in the financial statements.	Action will be taken to obtain an analytical report on the inventory remained as at the end of every year since the year 2020 and to indicate the said inventory at the lower of cost or net realized value or whichever is less as per the prescribed procedure based on the said report.	In terms of provisions of the Standard, inventories should be measured and indicated at the lower of cost or net realized value or whichever is less.
(c)	According to survey reports, industrial salt of 8,149 Metric Tons out of 13,515 Metric Tons purchased by the Company at a cost of Rs.269	Disclosures thereon had been made in the financial statements and it is agreed to disclose	Measurement of inventories should be carried out as per provisions of the

million from an external party in the year 2017 had remained unutilized as at 01 January 2019. The said remaining stock of salt had been assessed at a current value on a decision of the Board of Directors in the year 2020 due to failure in utilizing substandard salt for manufacturing purposes and the recognized impairment loss of Rs. 117,620,882 had been written off by the statement of comprehensive income. However, the new assessed value of the said stock was not the net realized value. As such, the accuracy of the assessment could not be satisfied in audit. Further, according to Section 13.22 of Sri Lanka Accounting Standards for Small and Medium - sized Entities, disclosures thereon had not been made through notes in the financial statements.	thereon in detail in the future.	Standard and disclosures thereon should be made in the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Moneys recovered from private contractors in terms of agreements for sand and soil extracted from lands in constructing the Koholankala saltern should be brought to account as other income. However, income of Rs.	It is agreed to account this value under other income and to settle by taking necessary action.	Income and expenditure should be identified correctly and indicated in the financial statements.

6,447,500, Rs. 3,217,100 and Rs. 1,285,500 received relating to the years 2017, 2018 and 2019 respectively had been brought to account as expenditure payable in each year. Accordingly, a sum of Rs. 10,950,100 had been erroneously indicated in the financial statements as a balance payable for contractors as at 31 December 2019. Further, income of Rs. 1,715,000 receivable from the new contractor relating to the year 2019 had been omitted from accounts.

1.5.3 Lack of Documentary Evidence for Audit

	Item	Amount Rs.	Evidence not made available	Comments of the Management	Recommendation
(a)	Grants and subsidies	29,135,522	Files containing details and other documents of confirmation of balances	Relevant information had been made available to the then external auditors who had audited the Company. Documents could not be found.	Evidence for confirmation of balances included in the financial statements should be maintained.
(b)	Payables for contractors	38,360,509	Contract agreement and confirmation of balances	Action has not been taken to pay the said amount due to failure in carrying out constructions in proper standard.	Evidence for confirmation of balances included in the financial statements should be maintained.

(c)	Trade Accounts payable	61,977,265	Confirmation of balances	Letters of request have been already sent to relevant creditors.	Evidence for confirmation of balances included in the financial statements should be maintained.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Section 87(5) of the Inland Revenue Act, No.24 of 2017 and Section 8.9.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003	The Company had paid Withholding Tax on dividends in the year 2019 by setting out dividends for the year 2017. However, action had not been taken to issue dividend certificates to members entitled to dividends including the Employees' Trust Fund Board. Moreover, action had not been taken even by 31 August 2020 to pay dividends amounting to Rs. 59,307,807 entitled to the Employees' Trust Fund Board.	It is agreed to pay dividends payable to the Board even by several installments by paying attention on the financial position of the company.	Action should be taken in compliance with provisions of the Public Enterprises Circular and the Inland Revenue Act.
(b)	Section 11 of the Employees' Provident Fund Act	Even though the employer should obtain the approval of the Commissioner of Labour to increase the contribution of 08 per cent to be recovered from an employee to the Employees'	The contribution recovered from employees since the period it functioned as a corporation, has been maintained as	Action should be taken in terms of the provisions of the Employees' Provident Fund Act to increase the

		Provident Fund, the Company had increased the said percentage up to 10 per cent on earnings of permanent employees of the Company without obtaining such approval.	10 per cent. It is agreed to take action thereon by seeking legal advice in the future.	percentage of contribution.
(c)	Public Enterprises Circular No.PED/12 of 02 June 2003			
	(i) Section 3.2	The maximum number of Executive Directors of a company should be limited to two including the Chairman on full time basis. However, contrary to that, three Executive Directors namely the Chairman, Executive Director and Working Director had been appointed to the Lanka Salt Ltd. in the year 2019.	The Board of Directors of the Company had decided to take action in compliance with Public Enterprises Circulars, at the 430th board meeting held in January 2020. Therefore, action will be taken accordingly in the future.	As all state owned companies should adhere to provisions of Public Enterprises Circulars, action should be taken in terms of circular provisions.
	(ii) Section 7.4.5	Surveys on fixed assets had not been conducted at the end of the year by appointing the Boards of Survey.	The relevant surveys are carried out by appointing a committee on fixed assets as well.	Action should be taken to conduct annual boards of survey in terms of circular provisions.
	(iii) Sections 9.2, 9.3.1 and 9.14	The Company had not taken action to register its organizational chart and the approved cadre in the	The Board of Directors of the Company had decided to take action	As all state owned companies should adhere to provisions of Public Enterprises

	Department of Public Enterprises of the Treasury. A scheme of recruitment and promotion and a manual on human resources management had not been prepared and the concurrence of the Department of Public Enterprises had not been obtained therefor.	in compliance with Public Enterprises Circulars, at the 430th board meeting held in January 2020. Therefore, action will be taken accordingly in the future.	Circulars, action should be taken in terms of circular provisions.
(d) Public Enterprises Circular No. 1/2015 of 25 May 2015			
(i) Section 3.1	(i) According to the Circular, the maximum monthly fuel allowance entitled to the Chairman of the Company had been 170 liters. However, 05 instances of providing fuel exceeding the limit of 170 liters were observed in the year 2019. Moreover, the approval of the Secretary to the relevant Line Ministry with the recommendation of the Board of Directors had not been obtained therefor. Further, in addition to the official motor car assigned to the Chairman, a Cab motor vehicle too belonging to the vehicle pool had been	The Board of Directors had decided to take action in compliance with Public Enterprises Circulars at the 430th board meeting held in January 2020. As such, future action will be taken accordingly.	(i) And (ii) As all state owned companies should adhere to provisions of Public Enterprises Circulars, action should be taken in terms of the said Circular provisions in providing fuel allowances to officers.

	used and details on fuel consumption thereof had not been made available to Audit. (ii) Even though the maximum monthly fuel allowance entitled to the Executive Director had been 150 liters, the Company had provided a monthly fuel limit of 300 liters to the executive Director contrary to the said provisions.		
(ii) Sections 2 and 3	(i) Even though except for the Chairman and the Executive Director of a Company, other Directors are not entitled to official vehicles or fuel, the Working Director of the Company had been provided with a sum of Rs. 30,000 as the monthly transport allowance and 100 liters of fuel per month. In addition to that, another Director of the Company had been provided with an official motor cycle and 30 liters of fuel per month and the approval of the Board of	The Board of Directors had decided to take action in compliance with Public Enterprises Circulars at the 430th board meeting held in January 2020. As such, future action will be taken accordingly. Providing official vehicles and fuel on the service requirement has been carried out with the approval of the Chairman according to the policy of the	As all state owned companies should adhere to provisions of Public Enterprises Circulars, action should be taken in terms of the said circular provisions in providing vehicles and fuel allowances to officers.

	Directors as well had not been obtained therefor.	Company.
(ii)	The Company had allocated vehicles to 13 officers of the Company without preparing the cadre structure and identifying posts entitled to vehicles and fuel allowance according to the Circular and they had been provided with fuel from 125 liters to 250 liters per month.	
(iii)	In addition to 13 officers mentioned above (ii), 20 officers of the staff including Managers, Assistant Managers and Clerks of the Company had been provided with motor cycles of the Company as official vehicles and fuel as well ranging from 8 liters to 45 liters by the Company. Moreover, 27 persons of the staff had been provided with fuel from 8 liters to 60 liters for 02 personal motor cars and 25 motor cycles by the Company. Further, relevant approvals for providing	

		vehicles and fuel to the aforesaid 47 officers had not been made available to Audit by the company.		
(e)	Section 2 of the Public Enterprises Circular No. PED1/2015 (i) of 27 October 2016	Even though the monthly transport allowance that can be obtained instead of the official vehicle amounted to Rs. 50,000, the Executive Director of the Company had been provided with a monthly transport allowance at a rate of Rs. 100,000 in the year 2019. Accordingly, the transport allowance overpaid for the year amounted to Rs. 600,000.	It has been provided with the approval of the Board of Directors.	Action should be taken in terms of circular provisions.
(f)	Public Enterprises Circular No.3/2015 of 17 June 2015			
(i)	Section 2.2	The Company should obtain the concurrence of the Minister of Finance with the recommendation of the Secretary to the Line Ministry to pay monthly allowances for the Chairman and the Board of Directors as it is categorized under the sub-category 'F' according to circulars. However,	It has been provided with the approval of the Board of Directors.	As all state owned companies should adhere to circulars of the Department of Public Enterprises of the Treasury, the approval of the relevant Department should be obtained in case of taking action

		monthly allowances had been paid at a rate of Rs. 115,000, Rs.80,000 and Rs.40,000 by the Company to the Chairman, Executive Director and Working Director respectively without obtaining relevant recommendations and approvals. Further, it was observed that the relevant allowances had been decided without taking the competitive market rates, educational and competency levels of members into consideration as specified in the Circular.		contrary to those circulars.
(ii)	Sections 2.5 and 2.11	Even though the Board of Directors including the Chairman of a company cannot be paid any additional payment, the Chairman of the Company had been paid a entertainment allowance at a rate of Rs.10,000 per month from January to October 2019. Further, the Chairman, the Executive Director and the Working Director are not entitled to draw the sitting allowance which is paid to non-executive directors and observers for attending board meetings. However, contrary to that, the Company	The Board of Directors of the Company had decided to take action in compliance with Public Enterprises Circulars, at the 430th board meeting held in January 2020.Therefore, action will be taken accordingly in the future.	As all state owned companies should adhere to circulars of the Department of Public Enterprises of the Treasury, the approval of the relevant Department should be obtained in case of taking action contrary to those circulars.

			had paid a sum totalling Rs.625,000 during the year under review to the Chairman, Executive Director and the Working Director as allowances for attending board meetings in addition to their monthly allowances.		
(g)	Section 01 of the Public Enterprises Circular No. PED 03/2018 of 07 December 2018	(i)	As the Company had recorded a loss of Rs.2.8 million in the year 2018, the maximum amount of bonus payable according to circular provisions amounted to Rs.3,000. However, bonus of Rs. 44,599,211 had been paid at a rate of Rs.25,000 to employees of the Company in April 2019. In addition to that, a sum of Rs. 5,453,044 had been again paid as "annual Bonus". Further, in terms of Section 3.3 of the Circular, special approval of the Cabinet of Ministers and prior approval of the Treasury had not been obtained for payment of bonus under such circumstance. Moreover, contrary to Section 2.3 of	The Board of Directors had decided to take action in compliance with Public Enterprises Circulars, at the board meeting held in January 2020.The approval of the Board of Directors was granted for Rs. 5,453,044.	As all state owned companies should adhere to circulars of the Department of Public Enterprises of the Treasury, the approval of the relevant Department should be obtained in case of taking action contrary to those circulars.

		the Circular, bonus had been paid in this manner before issuance of report of the Auditor General on the financial statements for the year 2018.		
		(ii) The after tax loss of the Company which was Rs.2.8 million for the year ended 31 December 2018 had increased up to Rs.262.16 million for the year ended 31 December 2019. Even under such circumstance, a sum of Rs. 32,138,109 had been paid in May 2020 at a rate of Rs. 25,000 for a permanent employee and Rs. 15,000 for a casual and seasonal employee as annual bonus for the year 2019.	The Board of Directors had decided to grant the annual bonus by obtaining the approval of the Department of Public Enterprises and payments had been made under the said approval.	
(h)	Guideline 4.2 of the Government Procurement Guidelines 2006	A Master Procurement Plan at least for a period of 03 years and an Annual Procurement Plan indicating procurement activities for the year 2019 in detail had not been prepared and approved on behalf of the Company.	The Corporate Plan for the period from 2017-2020 had been approved by the Board of Directors. The approval of the Board of Directors had not been granted for the budget report with revisions	Action should be taken in terms of provisions of the Government Procurement Guidelines.

		submitted to the Board of Directors for the year 2019. As such, the relevant Procurement Plan could not be submitted to the Board of Directors.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a loss of Rs. 262,162,026 as compared with the corresponding loss of Rs. 2,826,496 for the preceding year, thus observing a deterioration of Rs. 259,335,530 in the financial result. The increase in the cost of sale by Rs. 514,998,485 representing 45 per cent had been the main reason for the said deterioration.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
A stock of consumable goods valued at Rs. 13,252,123 had remained unutilized over a period of 02 years in main stores of Maha Lewaya, Palatupana and Bundala Salterns.	Stocks valued at Rs.2.7 million out of the said stock had been written off against the profit in the year 2015. Action will be taken to appoint a Board of Survey for the remaining stock of goods valued at Rs.5 million and to write off against the profit by recognizing the stock unusable further.	Action should be taken to make purchases according to requirements of the Company and to maintain a proper stock control in the Company.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Expenses of Rs. 7,716,287, Rs. 7,333,563 and Rs. 7,531,405 had been incurred in the years 2017, 2018 and 2019 respectively for coconut cultivations maintained in the Bundala Saltern and Mahalewaya by the Company. However, the income earned in relevant years had been Rs. 198,900 Rs. 282,713 and Rs. 225,750 respectively. Even though the annual income received from coconut cultivations was at a very low level, the management had not taken necessary measures to increase the income or to minimize the expenditure by finding out reasons therefor.	The Company pays its attention constantly for obtaining a significant yield from the coconut cultivation and cost of employees as well has declined as compared with the preceding years. Further, attention has been paid for intercropping in coconut lands.	The Management should be responsible for increasing the income and for incurring expenditure effectively.
(b)	According to the recommendation of senior managers such as the General Manager, Deputy General Manager, Financial and Process Supervision Manager, Senior Plant Manager, Chemist and Sales Manager of the Company, a proposal had been made in the year 2017 to the Board of Directors to purchase salt from an external party due to shortage in salt. Evidence that an analytical report on shortage of salt and the impact on the Company on failure in obtaining those	Necessary action is being taken to sell the stock of salt purchased from outside in the year 2017 as per instructions of the Board of Directors. Action will be taken to avoid such situation in future.	Measures should be taken to purchase stocks of salts by identifying requirements properly and to manage them correctly.

stocks, had been prepared by relevant officers considering matters such as the stock of salt existed in the Company, future market demand, production issues including weather conditions, prices of salt etc., had not been made available and the Vice Chairman was authorized to implement relevant recommendations by the Board of Directors without considering those matters. Accordingly, the Company had purchased 13,515 Metric Tons of salt by spending Rs. 268.64 million at 04 instances in the year 2017. However, according to laboratory tests, it was confirmed that the said stock was substandard and as such, it had remained unsold. Therefore, the quantity of salt costing Rs. 141.59 million which remained unsold stood at 7,136 Metric Tons as at 31 December 2019. However, in the preparation of financial statements for the year 2019, the said remaining stock of salt had been valued and indicated as Rs. 44.07 million at a rate of Rs. 6,177 per Metric Ton. Accordingly, the impairment of stocks had been recognized as Rs. 117.62 million. However, the Company had not taken any action even by the end of August 2020 against the responsible parties to recover the loss occurred to the Company due to the said stock of salt.

(c)	A Deed of Lease had not been prepared even by the end of the year 2019 for the land of Mahalewaya obtained on long term lease basis for a period of 30 years since the year 1994. Information on lease periods of lands of Koholankala and Bundala Salterns obtained on long term lease basis had not been revealed and Deeds of Lease had not been prepared for the said lands as well.	Necessary action is being taken to obtain the aforesaid Deeds of Lease since several years.	Necessary steps should be taken to manage assets correctly.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Four machines purchased at a cost of Rs. 24,671,591 from an Indian company in the year 2011 for the production of table salt had remained idle without being utilized in the manufactory over a period of 08 years.	Those machines were repaired and made use of at two turns. However, those were not made use of continuously due to lack of facilities for effective usage and at present, action is being taken thereon under the approval of the Board of Directors.	Measures should be taken to purchase assets by identifying requirements properly and to manage them correctly.