Lanka Salt Limited - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Lanka Salt Limited ("Company") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities.

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 the Sri Lanka Accounting Standard for Small and Medium-sized Entities, 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 Audit Scope (Auditor's Responsibility for the 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design 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 Audit Observations on the Preparation of 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 Non-compliance with Sri Lanka Accounting Standards for Small and Medium sized Enterprises

	Non-Compliance with the reference to particular Standard	Comments of Management	Recommendation
(a)	Although the useful life of non-current assets should be reviewed annually in accordance with Section 17.19 of the Standard, the Company had not acted accordingly. The value of non-current assets, which had been fully depreciated as at 31 December 2021 had been Rs.186,607,454. Action had not been taken to rectify the estimated error, occurred due to not identifying the assets that had further been used, out of those assets and not accurately reviewing the useful life of those assets, in terms of Sections 10.15 - 10.18 of the Standard and to properly dispose of the assets that had no longer been used.	It is expected to implement as per the prescribed methodology from the year 2022.	The useful life of non-current assets should be reviewed annually and adjustments should be made in the financial statements in accordance with the provisions of the Standard.
(b)	Even though the stocks should be valued at the lower of net realizable value or cost and indicated in the financial statements according to Section 13.4 of the Standard, the Company had not estimated the net realizable value of the stocks and the cost had been indicated in the financial statements as Rs.152,271,770.	Stock has been indicated only at cost since the net realizable value has taken a higher value than the cost.	According to the Standard, the net realizable value of the stocks should be calculated to report stocks at the lower of cost and net realizable value.

1.5.3 Accounting Policies

Audit Observation	Comments of Management	Recommendation
Even though the Pump and Accessories of the Company had been depreciated annually by 20 percent, this had not been disclosed in the depreciation accounting policy.	Depreciation rates under this category will be divided separately from the year 2022.	Accounting policies should be clearly disclosed in the financial statements.

1.5.4 Accounting Deficiencies

	Audit Observation	Comments of Management	Recommendation
(a)	In the verification of goods conducted in the year 2021, a shortage of 147 stock items of consumables and accessories, an excess of 127 stock items and damage of 13 stock items had been disclosed. However, action had not been taken to rectify the balances even by 05 May 2022, the date of audit.	The activities of rectifying the balances of these goods have currently been initiated and carried out.	Appropriate action should be taken expeditiously and necessary adjustments should be made in the financial statements.
(b)	Even though certain balances of assets and liabilities and values of income and expenditure related to the year 2020 had been restated in the financial statements of the year 2021, disclosures had not been made in the financial statements in that regard.	Such an error cannot be found.	Clear and adequate disclosures should be made regarding the restatement.
(c)	In the years of 2019 and 2020, an amount of Rs. 7,579,030 received by the Company from salt transportation had been misplaced and the total amount had been brought to accounts as transportation income receivable in the year 2020 and provision for doubtful debt had been allocated for the total amount. Since this amount had been an amount provided to the Company by the relevant external parties in the years 2019 and 2020 and the employees of the Company involved in this transaction had not handed over the money to the Company, specific disclosure had not been made in the financial statements. Furthermore, evidence had not been forwarded at the audit that measures had been taken to recover the loss incurred by the Company due to the misplacement of the money by the related parties even by 05 May 2022, the date of audit.	Formally disclosed in the financial statements.	Adequate disclosures should be made in the financial statements and legal steps should be taken to recover the amounts receivable to the Company from the relevant parties.

1.6 Receivables and Payables

1.6.1 Payables

	Audit Observation	Comments of Management	Recommendation
(a)	Action had not been taken to recover a payable dividend value of Rs.1,341,988 outstanding for several years, a payable contract balance of Rs.38,360,509 and a creditor balance of Rs.320,481.	This dividend amount had been indicated in the accounts as the shareholders had not claimed it. This amount had been retained as the contract had not been finalized properly. Action will be taken to transfer this amount to the profit and loss account after the completion of the relevant repairs during the year 2022.	Arrangements should be made to settle the balances payable.
(b)	A salary balance amounting to Rs. 2,521,917, the unpaid total from the year 2016 within the Unclaimed Salary indicated under the balance of other payables in the statement of financial position as at 31 December 2021. Furthermore, action had not been taken even in the year 2021 to recover the distress loan balance of Rs.350,473, the total receivable outstanding for several years to be recovered from 06 employees.	In the year 2022, it will be transferred to the profit and loss account.	Arrangements should be made to settle the relevant balances.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Sections 9.2, 9.3.1 and 9.14 of Public Enterprises Circular No. PED/12 dated 02 June 2003	Action had not been taken to register the Organizational Chart of the Company and the Approved Cadre with the Department of Public Enterprises of the General Treasury and the Company had not formulated a manual on the schemes of recruitment and promotion and human resource management and had not obtained the concurrence of the Department of Public Enterprises for that manual.	The approved personnel assessment of the Company has been forwarded to the Department of Public Enterprises for approval by the Deputy General Manager of the Company after obtaining the approval of the Board of Directors. The Scheme of Recruitment, Scheme of	Since provisions stipulated in the Public Enterprises Circulars must be applied to all the Public Corporations, they should take action according to the provisions of the Circulars.

			Promotion, salary structure, organizational chart and operational manual have been handed over to the Skills Management Institute and the work has already been in the final stage.	
(b)	Procurement Guidelines 2006			
(i)	Sections 3.4.2 (a) and 5.6	Even though information related to specifications, required quantity, conditions and warranty period related to the supply of goods should be clearly submitted in the process of calling quotations in the procurement process, the Company had not taken action accordingly in the procurement of computer machines valued at Rs.4,476,695. As a result, the Company had to revoke the prices submitted to the Company and to call for quotations again. Accordingly, it was observed that time and cost have to be consumed and incurred unnecessarily for the procurement process.	Proper execution of the procurement process has been started from the year 2022.	Procurements should be carried out by following the procurement guidelines.
(ii)	Section 3.4.3	A procurement entity should advertise items that are required to be purchased frequently and register qualified suppliers and it shall be updated at least once a year. Procurements made under the shopping method shall be limited to the list of those suppliers. However, the Company had made periodic procurements throughout the year without registering such suppliers for procurements such as packaging materials, chemicals and spare parts of vehicles and spare accessories for machines, which are required to be purchased frequently.	The proper tendering method has been followed from the year 2022.	Action should be taken to follow procurement guidelines and to minimize the time consumed and cost incurred in the procurements.

(iii)	Section 4.2	Although a master procurement plan for the Company at least for 03 years and an annual procurement plan detailing the procurement activities for the year 2021 should have been prepared and approved, action had not been taken accordingly.	The plan is designed to work according to a three-year procurement plan from the year 2023. the procurement plan will be operational from the mid-2022.	Procurements should be planned as per the provisions of the Procurement Guidelines. .
(c)	Public Enterprises Circular No. PED 1/2015 dated 25 May 2015			
(i)	In terms of Sections 2 and 3.1	The Company had provided a fuel allowance of 100 litres to 200 litres per month by allocating company vehicles to 07 officers without preparing the staff structure and without conclusively identifying the positions, which are entitled to obtain transport facilities as per the Circular. Accordingly, an amount of Rs. 1,488,216 had been paid as fuel allowances to the aforementioned officers in the year 2021.	This fuel allowance had been provided to posts that are parallel to that even though they are not classified as HM MM etc. as per PED Circulars. The Scheme of Recruitment is being formulated according to the categories of HM, MM etc.	Action should be taken as per the Circular.
(ii)	Section 3.1	Although the maximum monthly fuel allowance entitled by the Chairman of the Company was 170 litres, the Board of Directors had approved to provide 400 litres of fuel. However, the approval of the Secretary of the Line Ministry had not been obtained for this purpose as per the Circular. Accordingly, the Chairman of the Company had been provided the monthly fuel allowances in the range of 300 to 890 litres during the year 2021. In this way, Rs. 459,885 had been overpaid for 3775 litres of fuel in the year 2021 by surpassing the provisions of the Circular. Furthermore, the Company had borne the fuel expenses for another vehicle, apart from the official vehicle provided to the Chairman.	The Board of Directors has provided fuel to the Chairmen to oversee the duties of the three salterns from time to time with effect from 26 January 2022. However, since the former Chairman has now left the service, it is not possible to present the facts about the additional fuel consumed by him.	The approval of the Secretary of the Line Ministry should be obtained as stipulated in the Circular.

(iii)	Section 3.1	Although the maximum monthly fuel allowance entitled to the Chief Executive Officer had been 150 litres as per the Circular, the Company had given monthly fuel allowances in the range of 230 to 450 litres in the year 2021 in contrary to those provisions. Accordingly, an extra amount of Rs. 248,530 had been paid for 2286 litres of fuel during the year 2021 in contrary to provisions of the Circulars.	The approval of the Board of Directors had been granted on 30 March 2021 to provide 300 litres of fuel per month for the official vehicle of the Company as the Chief Executive Officer supervises the duties of the three salterns and supervises the sales activities throughout the island in the capacity of the CEO of the Company and the official vehicle used by the Chief Executive Officer had also been used for the other duties of the Company. Moreover, the value of fuel exceeding that limit has been deducted from the salary.	The relevant approvals should be obtained as per the Circular.
(d)	FR 371 (2) (b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Although a Sub Imprest should be settled immediately after the completion of the purpose for which it is granted, advances amounting to Rs.819,136 issued on 31 occasions from 06 December 2019 to 05 May 2022 and local purchase advance totalling Rs.5,298,046 granted to external institutions on 60 occasions from 2012 to December 2021 for various supplies and services had not been settled even by the date of audit in May 2022.	There is no proper explanation as to whether the Financial Regulations are applicable. I hope to discuss with the Board of Directors in this regard and act accordingly.	Action should be taken as per the Financial Regulations.

1.8 Money Management

Audit Observation	Comments of the Management	Recommendation
There had been a balance of Rs. 89,288,810 in the savings accounts as at 31 December 2021 and those balances had not been invested in a more productive way of investment. Furthermore, the Company had obtained bank overdraft facilities and had incurred an expenditure of Rs.1,817,423 in the year 2021 as bank overdraft charges.	Action has been taken to manage money in a way that it is productive to the Company.	The funds of the Company should be managed effectively by investing in productive sources at the right opportunity.

2. Financial Review

2.1 Financial Results

The financial result of the year under review was a profit of Rs.25,973,407 and corresponding profit of the previous year was Rs.9,302,068. Accordingly, an improvement of Rs. 16,671,339 was observed in the financial result when compared with the previous year. Although the cost of sales had increased by Rs.112,208,269 compared to the previous year, the increase in sales income by Rs.154,801,442 had been the major reason for the improvement in this financial result.

2.2 Trend Analysis of Major Revenue and Expenditure Items

Particulars	2021 Rs.000	2020 Rs.000	Income (Decrease)/Increase Expenditure (Increase)/Decrease Rs.000	Percentage (%)
Sales revenue	1,438,761	1,283,960	15,480	12.06
Cost of sales	1,151,995	1,039,787	(112,208)	(10.79)
Other income and grants	35,495	29,611	5,884	19.87
Selling and distribution expenses	33,431	27,764	(5,667)	(20.41)
Administrative expenses	195,259	112,367	(82,892)	(73.77)
Other expenses	78,310	83,155	4,845	5.83
Financial expenses	2,496	16,304	13,808	84.69
Financial income	26,351	25,149	1,202	4.78
Tax expenditure	13,144	50,040	36,896	73.73

Although the sales revenue had increased by 12.06 percent when compared with the previous year, the cost of sales had also increased by a high rate of 10.79 percent. Furthermore, the sales and distribution expenses and administrative expenses of the Company had increased by 20.41 percent and 73.77 percent respectively, and the annual bonus expenditure of the Company had increased by Rs. 69,001,214 or 4033 percent when compared with the previous year. This had led to the excessive increase in the administrative expenses.

2.3 Ratio analysis

Description	2021	2020
Current Asset Ratio	1.77	1.85
Quick Asset Ratio	0.70	0.20
Cash Ratio	0.45	0.09
Gross Profit Ratio (%)	19.93	19.01
Net Profit Ratio (%)	1.81	0.71

The current asset ratio of the Company was 1.77 and a decline was observed when compared with the previous year. Furthermore, the current asset ratio and cash ratio were also at a low level of 0.7 and

0.45 respectively. The gross profit ratio and net profit ratio were 19.93 percent and 1.81 percent respectively with a slight increase when compared with the previous year. Nevertheless, 31820 metric tons or 40.42 percent, out of the 78726 metric tons of salt stock sold by the Company in 2021, had been sold as industrial salt (without value addition). Thereby a gross loss of 14.10 percent had been incurred.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
The Company maintains coconut plantations in Mahalewaya and Bundala salterns and it had continuously incurred net losses when considering the expenses incurred and the income received from these plantations during the last 03 years and in the current year. The net losses in the years of 2018, 2019, 2020 and 2021 were Rs.7,050,800, Rs.7,305,655, Rs.8,086,837 and Rs.2,566,170 respectively. Accordingly, it was observed that the expenditure incurred for this cultivation is an uneconomic expenditure.	Action has taken to reduce expenses compared to the previous year.	The Management must work to incur expenses effectively and to increase the income.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The Company had purchased 13,538 metric tons of salt (Rs. 19,844 per metric ton) by paying Rs. 268.64 million in the year 2017 without carrying out a proper study of the needs of the Company, market conditions and environmental factors, and according to the laboratory reports, this stock had been confirmed to be of inferior quality and it had been not possible to sell. 7136 metric tons had remained as at 31 December 2019, and it had been valued at Rs.44.07 million with the rate of Rs.6,177 per metric ton. An amount of Rs.97.52 million had been adjusted as the impairment of stock in the financial statements. In the years 2020 and 2021, 6,391.47 metric tons had been sold for Rs.29.59 million and the cost of that stock had been valued at Rs.38.95 million. Therefore, a loss of Rs.9.36 million had been incurred from the sale of that salt stock in the years 2020 and 2021. Furthermore, 2,583.55 metric tons out of the total stock had been written off as a stock deficiency in	Investigations were carried out as per the instructions of the Board of Directors and the report of the said investigation was submitted to the 444th meeting of the Board of Directors held on 23 December 2021. Accordingly, the Board of Directors has asked to include the observations in this regard briefly and to submit a report to the Board of Directors with the parties responsible and the losses incurred to the Company.	Necessary steps should be taken to recover the loss incurred to the Company from the parties responsible.

	the years 2018, 2019, 2020 and 2021. Since the Company had incurred a loss by purchasing this substandard salt stock, action had not been taken against the responsible parties to recover the said loss even by the date of audit in May 2022. Although the sales in 2021 had been 3,057.55 MT, it had been 403.25 MT as per the information received from the Sales Department.		
(b)	The Company sells Lak Salt through sales agents and at the beginning of 2020, the price of a bundle of Lak salt had been Rs.800 and a sales concession had been offered to sales agents by reducing the price in the range of Rs. 800 – Rs.575 in the year 2020. While salt stocks had been provided by reducing the price, the agents, who had achieved the sales targets had been given an additional incentive of Rs. 25 per bundle and the incentive had been given by issuing free salt stocks. Accordingly, 52962 Lak salt - 1 kg bundles or 1,059.24 metric tons had been issued free of charge as incentives. It was observed that the Company had lost an income of Rs.30,453,150, that could have been received by selling a bundle of Lak Salt at the rate of Rs. 575 as these bundles had been given free of charge as an incentive in addition to the price concession.	These allowances have been given according to the approval of the top Management in order to confront the market condition and the competition and this payment of incentives has been stopped with effect from February 2022.	A sales policy, which will increase the income of the Company should be formulated and implemented.
(c)	There was no pricing committee consisted of experts in the determination of the selling price of salt of the Company. The prices had been decided based on the recommendations made by the committees appointed from time to time by the Chairman. Furthermore, there was no method of determining the gross profit margin after considering the cost in the determination of this price. Although an income of Rs. 286,208,699 had been obtained from the sale of industrial salt in the year 2021, a gross loss of Rs. 40,361,988 or 14.10 percent had been incurred as the cost of sales of industrial salt had been Rs.326,570,688.	Prior to this, the cost had not been taken into consideration when the price was decided and the price was decided by considering the cost from the year 2022.	Formal pricing committees should be appointed to decide the selling price and the profit margin should be decided after considering the unit cost.
(d)	The lease deeds had not been prepared even by 05 May 2022, the date of audit for the land in Mahalewaya, which had been obtained under the long-term lease basis for a period of 30 years from 1994. The information about the tenure of the lease of the lands in Koholankal and Bundala Salterns, which had been acquired under the long-	The Ministry of Lands has been assigned the task of preparing lease deeds for the land in Mahalewaya, which was acquired under the long-term lease basis for a	Taking necessary action to prepare lease deeds and to carry out follow-up activities.

	term lease basis, had not been disclosed and the lease deeds had not been prepared for those lands.	period of 30 years from the year 1994. The preparation of lease deeds related to the lands of Koholankal and Bundala Salterns, which were given on the long-term lease basis, is currently being carried out.	
(e)	After checking the condition of the salt heaps, the laboratory had classified the salt heaps as Grade 1, 2, 3, 4 and Special from the year 2019. However, it was observed that this classification had not been considered in the determination of the selling price of these salt heaps. In the year 2021, salt heaps of the same grade had been sold to different buyers at different prices. Even though "Grade 1" salt had been sold at a price between Rs.7,500 and Rs.12,500, "Grade 2" salt had been sold at a price between Rs.10,000 and Rs.13,000 and "Grade 3" salt had been sold at a price between Rs.11,500 and Rs.13,000 , "Grade 4" salt at a price between Rs.12,000 and Rs.13,000 and "Special Grade" salt had been sold at a price between Rs.7,500 and Rs.12,500, the quality reports used as the basis for this were not observed at the audit.	The relevant prices were determined by the pricing committee nominated by the former Chairman of the Company and the former Chairman has given approval for those prices.	A pricing committee consisted of qualified officers should be formally appointed and the prices should be decided transparently on the basis of quality reports of the laboratory.
(f)	According to laboratory reports in 2017 and 2018, industrial salt stocks were classified as "Reserved for the Plant" and "Reserved as an industrial salt". However, occasions, where stocks indicated as “Reserved for the Plant” had been sold as industrial salt stocks, were observed. Although 1,671 metric tons of salt stock in Palatupana saltern had been indicated as “Reserved for the Plant” in the laboratory reports according to audit test checks carried out, 1 metric ton had been sold as industrial salt stocks at a price between Rs.6,000 and Rs.7,500.	Salt had been released after obtaining proper approval after considering the matters such as the excessive discoloration of salt owing to non-using of plants for salt for 04 to 05 years although plants had been reserved in the years 2017 and 2018 and the expenses in the transportation from Palatupana to Mahalewaya.	A pricing committee consisted of qualified officers should be formally appointed and the prices should be decided transparently on the basis of quality reports of the laboratory.
(g)	In the year 2021, occasions that industrial salt stocks in the same heap were sold to different buyers at different prices were observed. Accordingly, 18 heaps of salt produced from 2017 to 2021 in Palatupana saltern, 2 heaps of salt	There were no analysis reports for this and had been issued under the approval of the former Chairman according to	A pricing committee consisted of qualified officers should be formally appointed and the prices should

	produced in 2019 in Bundala saltern and 8 heaps of salt produced in Mahalewaya from 2018 to 2020 had been sold at different prices between Rs.6,000 and Rs.13,000 in the year 2021. Thus, the laboratory reports or market analysis reports, which had been used as the basis for selling salt at different prices in the same year were not observed at the audit.	the demand created in the market from time to time.	be decided transparently on the basis of quality reports of the laboratory.
(h)	In the year 2021, 01 metric ton of salt without packing cover had been sold at Rs. 21,260 and it had been decided on 04 March 2021 to provide 1 metric ton of salt for Rs. 20,000 to a particular buyer at the discretion of the Chairman without obtaining the recommendations of a Pricing Committee. Although the Sales Manager had stated that the reasons for this were that there had been too much sand mixed in the salt heaps, the size of the salt grains in some salt heaps had been very small, yellow coloured nature of salt and the very high amount of wastage during salt washing, quality reports obtained from the laboratory were not observed and there was no evidence that such reports had been used to mention such facts.	The salt has been issued as per the approval granted by the Chairman. Currently, the issue of the industrial salt is addressed properly according to a methodology.	A pricing committee consisted of qualified officers should be formally appointed and the prices should be decided transparently on the basis of quality reports of the laboratory.

3.3 Operational inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	4,349 metric tons of salt stock with an invoice value of Rs.41,835,800 as invoiced by the Company in the years 2018, 2019, 2020 had not been removed by the buyers even by 08 March 2022. A system of removing the salt stocks sold within a reasonable time and charging a fee from buyers, who do not do so had not been implemented in the year 2021 and it was observed that there is a holding cost and a risk of the stock being destroyed due to non-removal of the stocks.	At present, those stocks of salt have been removed and customers, who have not removed salt in that manner have been informed to get money again. Also, at present, the Company has decided to give a specific time period for removing salt from the Company when selling industrial salt. .	A system should be introduced to set a reasonable time for the buyers to remove the salt stocks and to charge an additional fee for the salt stocks that are not removed.
(b)	It was observed that there had been items worth Rs.16,828,606, which had not been used for 02 years and for a period more than that in the main warehouses of Mahalewaya, Palatupana and Bundala Salterns.	Most of these items are spare parts and they can be used in the future.	Action should be taken to purchase according to the needs of the Company and to maintain a proper control of the stocks.

(c)	A stock of materials amounting to 7750kg and valued at Rs.7,265,625, out of a stock of Encapsulated Ferrous Fumarate (Chemical) purchased on 21 July 2011, had been expired on 21 July 2021 and the said material had been in the stores at the time of conducting the final verification of goods for the year 2021. Appropriate action had not been taken to dispose of these expired stocks.	Discussions are being held to dispose of it appropriately without causing harm to the environment.	Appropriate measures should be taken in relation to the disposal of the expired stock.
(d)	The packages used for the production of salt packets have been damaged in certain instances and in the year 2021, 33730 packets had been found as damaged packages due to the errors of the Company producing the packets and 46450 packets had been found as damaged packages due to the errors of the employees in the Company during the production process. Action had not been taken to reduce this waste through a methodology of determining the limits of the maximum allowable waste to minimize the damage caused through the errors of employees. The production department had sent 218897 defective packets worth Rs.692,270 to the stores department using Material Transfer Notes (MTN). The stores department had informed the purchasing department about the aforementioned defective packets of the manufacturing company and the purchasing department had also informed the respective companies. However, there had been no setting off for other defective packets except for 1550 of 400-gram packs of one company or when buying packets again from the same companies, there was no reduction of the value for defective packets in the previous orders or any method of getting a discount for the defective packets.	All those packages will be deducted from the payments or exchanged for packages.	Identifying the opportunities to reduce costs in the production process of the Company and introducing internal controls to minimize those costs and focusing on recovering losses incurred due to the errors of external parties.
(e)	The Company provides Local Purchase Advances to external organizations for obtaining various supplies and services. Advance had been issued to the same institution, which had not settled the	Action has already been taken to control this with full supervision.	Internal controls regarding granting and settlement of advances should be reviewed and necessary improvements should be

	advance after obtaining the supply or service in relation to the advances granted initially on 13 occasions from the year 2018 to the year 2021. Advances totalling to Rs.2,530,636 granted in that manner had not been settled even by 31 December 2021.		made and supervisory activities should be formalized.

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
Four (04) machines purchased for an amount of Rs.24,671,591 from an Indian Company in the year 2011 for the production of table salt remained idle in the factory for about 10 years without utilizing the machines. Appropriate action had not been taken by the Management regarding those machines.	Arrangements are being made to conduct the auction.	Action should be taken to purchase assets by identifying the need properly and to utilize them effectively.

3.5 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	The Company had published procurement notices and invited bids for the purchase of various types of packaging materials on 04 November 2021 and had purchased the packaging materials by 05 May 2022, the date of the audit. However, it was not possible to confirm at the audit whether the procurement was done in a transparent manner since the reports of the Technical Evaluation Committee, the approval of the Procurement Committee and other information related to the purchase were not observed.	It is being implemented according to a proper methodology from the year 2022.	The procurement process should be done transparently, proper approvals should be obtained from the competent parties and related documents should be maintained properly.
(b)	It was observed that the Company had been making procurements for the same type of goods at different occasions without properly estimating the requirement for the year at the beginning of the year and preparing a procurement plan. In the year 2021, quotations had been called on 08 occasions for the purchase of 29 computers costing Rs.4,479,695 and purchases had been made on 26 occasions. Various types of Electric Motors worth Rs.2,865,194 had been purchased at various	The procurement plan has been prepared in the mid-2022.	A procurement plan should be developed and implemented to minimize the time spent and cost incurred for procurements.

occasions. It was observed that procurement without proper planning will lead to spend time and incur additional costs unnecessarily and to confront the risks of price increase and miss the opportunities of getting discounts.

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Observation	Comments of the Management	Recommendation
(a)	The Company had not prepared an action plan for the year 2021 to state the activities expected to be implemented by the Company in the year 2021, the time frame of implementation and the expected outputs of those activities and key performance indicators.	Action plan has been prepared by now.	An action plan should be prepared for each year according to the expected roles of the Company and action should be taken accordingly.