**Lanka Salt Limited - 2022**

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## 1. Financial Statements

### 1.1 Qualified Opinion

The audit of the financial statements of Lanka Salt Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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, 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 Non-compliance with Sri Lanka Accounting Standards

| | Non-Compliance with the reference to particular Standard | Comments of Management | Recommendation |
|---|---|---|---|
| (a) | As per paragraph 1.2 of Sri Lanka Accounting Standards No.01 for Small and Medium Scale Entities, Lanka Salt Limited cannot be recognized as a small and medium scale business unit. However , in presenting the company's financial statements for the year under review had been followed the Sri Lanka Accounting Standards for Small and Medium Scale Entities | Will supposed to implement appropriate methodology from 2023. | Financial statements were to be prepared As per the provisions of the standard and also according to Sri Lanka Accounting Standards. |
| (b) | According to paragraph 66 of Sri Lanka Accounting Standards No. 01 for statement of financial position, Short-term investments amounting to Rs.1,163,986,655 which should be presented as current assets in the statement of financial position, were presented under non-current assets. | It had been agree to the make correction of mistakes from the year 2023. | According to the provisions of Standard, should be presented under the current assets. |
| (c) | Although in accordance with paragraph 10 of Sri Lanka Accounting Standards No. 37, the company's contingent liabilities should be identified based on management judgment and disclosed in the financial statements in accordance with paragraph 86 of the standard , In relation to 03 cases as on December 31 of the year under review, against the company and assigned by the company were not identified and disclosed in the financial statements. | Agreeing to recognize and account for contingent liabilities in accordance with Sri Lankan accounting standards, From the year 2023. | Contingent liabilities should be identified and clearly disclosed as per the standard. |
| (d) | In accordance with paragraph 51 of Sri Lanka Accounting Standards No. 16, the effective life of non-current assets was not reviewed annually, hence the value of fully depreciated non-current assets on December 31, 2022 was Rs.214,183,940. | Will supposed to implement appropriate methodology from 2023. | The useful life of non-current assets should be reviewed annually and adjustments made in the financial statements as per the presentation |

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| | Among those assets, assets that are further used were identified and their effective life was accurately reviewed accordingly and the estimated error that occurred was not revised in accordance with paragraph 32 of Sri Lanka Accounting Standard No. 08 and also the correct carrying amount was not stated in the financial statements | | of the standard. |
| (e) | In the statement of financial position recorded, revaluation reserves of Rs.4,966,100 as a revenue reserves, it had been transferred to retained earnings not in accordance with Sri Lanka Accounting Standards No. 16 | That the company does not have specific information about the reserve amounting to Rs.4,966,100. | Should be done according to Sri Lanka Accounting Standards. |
| (f) | A coconut tree in Mahalewa that has been pressed and not pressed costs Rs. 12,500 and in Bundala Lewa, a coconut tree that was pressed and not pressed was valued at the cost of Rs.63,313. Thus, in respect of these biological assets, adjustments for impairment values as per Sri Lanka Accounting Standards 16 were not presented at the correct carrying value. | From the year 2023, that as per the Sri Lanka Accounting Standards it is expected to be corrected. | Should be done according to Sri Lanka Accounting Standards. |

### 1.5.2 Accounting Deficiencies

| | Audit Observation | Comments of Management | Recommendation |
|---|---|---|---|
| (a) | Recognized as receivable interest income on fixed deposits of Rs.103,037,487 , that unrealized interest income was added to the fixed deposit value and accounted. | Such errors will be corrected in the future. | Financial statements should be properly prepared on accrual basis. |
| (b) | In the statement of cash flows interest income as cash flow generated under investing activities is Rs. 103,037,487 more were recorded. | such errors will be corrected in the future. | Financial statements should be prepared correctly on the basis. |
| (c) | Although the Company's employee loan payments should be shown separately as a cash outflow and debt collection as a cash inflow, the net result of Rs. 50,966,828 was mention in the cash flow statement. | To prevent such errors in the future, will make proper allocations. | Financial statements should be prepared correctly with proper allocations. |
| (d ) | Against the judgment of a case filed by 20 employees of the company in the Matara Labor Tribunal, the company deposited to the Commissioner General of Labor to obtain a writ of Rs. 33,445,138 was presented as employee | This error will be corrected in the year 2023. | Necessary adjustments should be made in the financial statements. |

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| | compensation payments under administrative expenses.<br>Accordingly, as of the audit date of March 21, 2023, this amount that had not been paid to the employees was not formally disclosed in the financial statements and the amount deposited was not identified as an asset and the amount payable as a liability. | | |
| (e ) | In the year 2019, from the income received from salt transportation, Rs. 7,579,030 an amount of was missing and that value is recognized in the financial statements as transportation revenue and mention total amount as provision of doubtful debt. Accordingly, the information regarding this missing amount was not disclosed in the financial statements. | That the notes in the financial statements of the year 2023 will supposed to disclose the related this fraud. | Clear and adequate disclosure should be made regarding financial fraud. |

**1.6 Receivables and Payables**

**1.6.1 Receivables**

| Audit Observation | Comments of Management | Recommendation |
|---|---|---|
| Board of Directors Decision 450.7 had fixed loan periods for 03 approved client institutions. The value of overdue loan balances approved by those client institutions, which represented 50 percent of the total debtor balance as of December 31, 2022, was Rs. 13,834,050 and the overdue debt balance as of February 28, 2023, which is the audit date, was Rs. 31,972,755. | Non-establishment of maximum limit for debt value is also a major weakness and is expected to overcome these weaknesses by strengthening internal controls. | Fixed loan periods for debtors and amounts should be fixed for the borrowers and accordingly, the loan balance should be recovered at the specified time interval. |

**1.6.2 Payables**

| Audit Observation | Comments of Management | Recommendation |
|---|---|---|
| Regarding the payable loan balance of Rs.40,175,058 shown in the financial statements, the loan periods were not submitted for audit and the company had not settled the said balance even at the end of the year under review. | This has been retained in the non-completion of the contract and after the completion of the relevant repairs in the year 2023, this money will be transferred to the profit and loss account. Dividends payable in unclaimed shares shall be shown in the accounts and in respect thereof and in | Arrangements should be made to settle the balance due. |

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| | respect of balances of incentives payable shall be submitted to the Board of Directors for approval of the Board of Directors. | |

### 1.6.3 Advances

| Audit Observation | Comments of Management | Recommendation |
|---|---|---|
| The amount given by the company to 37 external organizations on 54 times from the year 2012 to 31 December 2022 for the purchase of various supplies and services locally was Rs. 7,882,701 had not been settled. | It is difficult to get supplies without giving advance on behalf of goods and services, Although goods and supplies have been obtained in advance but the related settlement activities have not been done properly, the advance settlements are being rectified. | Activities Should be done according to Monetary regulations. |

## 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 |
|---|---|---|---|
| Public Business enterprise Circular PED 01/2021 dated 11 November 2021<br><br>I. Guidelines and Operations Manual for Government Owned Companies | | | |
| Paragraph 3.1 | The approval of the treasury had not been obtained for the number of employees and wages of the Company. | That arrangement is being made to obtain Treasury approval. | PED 01/2021 dated November 11, 2021 should be approved as per the Public Business enterprise Circular. |
| Paragraph 3.2 | The staff recruitment scheme of the company had not been submitted to the Department of Public | Those steps are being taken to get the recruitment procedure approved. | PED 01/2021 dated November 11, 2021 should be approved as per the Public Business enterprise Circular. |

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| | Enterprises with the recommendations of the line ministry and approved. | | |
| Paragraph 3.3 | There was no organization chart with approved staff for the company. | Those arrangements are being made to get an organizational chart approved. | PED 01/2021 dated November 11, 2021 should be approved as per the Public enterprise circular. |

**2. Financial Review**

**2.1 Financial Results**

The financial result of the year under review was a profit of Rs.701,932,164 and corresponding profit of the previous year was Rs.25,973,407. Accordingly, an improvement of Rs. 675,958,757 was observed in the financial result when compared with the previous year. Compared to the previous year, the cost of sales increased by 18 percent, but the increase in sales revenue by 84 percent was the main reason for the growth in this financial result.

**2.2 Trend Analysis of Major Revenue and Expenditure Items**

| Particulars | 2022 Rs.000 | 2021 Rs.000 | Income (Decrease)/Increase Expenditure Increase/(Decrease) Rs.000 | Percentage (%) |
|---|---|---|---|---|
| Sales revenue | 2,652,579 | 1,438,761 | 1,213,818 | 84 |
| Cost of sales | 1,355,717 | 1,151,995 | 203,722 | 18 |
| Other income and grants | 29,307 | 35,495 | (6,188) | (17) |
| Selling and distribution expenses | 71,122 | 33,431 | 37,691 | 113 |
| Administrative expenses | 375,870 | 195,259 | 180,611 | 92 |
| Other expenses | 89,451 | 78,310 | 11,414 | 14 |
| Financial expenses | 616 | 2,496 | (1,880) | (75) |
| Financial income | 126,590 | 26,351 | 100,239 | 380 |
| Tax expenditure | 213,767 | 13,144 | 200,623 | 1526 |

Compared to the previous year, sales revenue had increased by 84 percent, but cost of sales had also increased at a lower rate of 18 percent. Furthermore, the company's sales and distribution expenses and administrative expenses had increased by 113 percent and 92 percent respectively, and the company's annual bonus expense increased by Rs. 130,055,771 that was 184 percent compared to the previous year and Rs. 33,445,138 to be recognized as deposits as expenses recognition as expenses . The recognition had led to a huge increase in administrative costs. Compared to the previous year, the transportation expenses were Rs. 12,984,565 that was increased of 156 per cent and social security contribution tax of Rs. 21,281,060 that was the increase of 57014 percent was mainly due to the huge growth in selling and distribution expenses.

### 2.3 Ratio analysis

| Description | 2022 | 2021 |
|---|---|---|
| Current Asset Ratio | 1.51 | 1.77 |
| Quick Asset Ratio | 0.56 | 0.70 |
| Cash Ratio | 0.30 | 0.45 |
| Gross Profit Ratio (%) | 49 | 19.93 |
| Net Profit Ratio (%) | 26 | 1.81 |

The current assets ratio of the company is 1.51 and a decline was observed compared to the previous year. Furthermore, the quick ratio and cash ratio were also at a low level of 0.56 and 0.30 respectively. The gross profit ratio and net profit ratio are 49 percent and 26 percent, respectively, showing growth compared to last year. Nevertheless, the stock of salt sold by the company in the year 2022 was 78727 metric tons, which was reduced by 23 percent compared to the year 2021.

## 3. Operational Review

### 3.1 Uneconomic Transactions

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| The coconut plantations run by the company in Mahalewaya and Bundala Lewaya will generate Rs. 7,305,655, Rs. 8,086,837 and Rs. 256,617 had net loss for the year 2019,2020 and 2021. In the year under review also Rs. 3,869,502 had a net loss and thus the income was 07 percent of the expenditure incurred. | Although constant attention is paid to obtain a significant level of productivity through coconut cultivation and that employee costs have been reduced compared to previous years and that costs will be reduced in a manner that further increases productivity. | Management should work to incur expenses effectively and increase income. |

### 3.2 Management Inefficiencies

| | Audit Observation | Comments of the Management | Recommendation |
|---|---|---|---|
| (a) | The land in Mahalewa, which had been obtained under a long-term lease for a period of 30 years from 1994, and the land in Bundala Lewa, where no information was disclosed about the tax period for which the tax money had to be paid from 2004, had not been prepared. | That the company has done all the work to identify and lease the specific land areas related to Mahalewaya and Bundala Lewa and that the work to be done by the Department of Land Commissioner is still being done. | Necessary measures should be taken to prepare the tax deeds and follow-up should be done. |
| (b) | Compared to the previous year, the company's salt revenue increased from Rs.1,438,761,335 to Rs. 2,652,578,754 had increased by 84 percent, but sales had decreased by 23 percent from 78,727 metric tons to 60,975 metric tons. The increase in sales prices in the range of 30 | Although it was agree with this observation according to the numerical values recorded on the face of the financial statements, in analyzing the information, the change in salt prices as well as the existing quality of salt and | The performance of the company should be maintained at a high level. |

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| | to 110 percent on two times had led to an increase in the company's income and the company's performance had declined compared to the previous year due to a decrease in the overall sales volume. | the quantities of salt produced in the previous year have led to an increase in sales revenue. | |
| (c) | The stock of salt, packaging, spare parts, weapons, fuel and chemicals in the company's 05 warehouses, including Rs. 508,131,670, A formal stock verification plan was not prepared regarding stock verification. | Prepare a stock verification plan from the year 2023, That the process of verification is expected to be well organized. | Stock verification plan should be developed. |
| (d) | Plant & machinery sector during the year under review For 02 cases the value is Rs.10,743,780 (US$ 28,045) worth of goods and spare parts were imported and the following observations are made in this regard. | | |
| (i) | Since these purchases were made without following the procurement process, the prices were obtained from the relevant supplier through e-mail, so it was not confirmed that the company was purchased according to the most advantageous competitive prices. | Most of the machinery required for the plant has been supplied and installed by the respective supplier, and apart from this, since 2017, repairs and spare parts have been provided in case of any problem. | A proper procurement system should be adopted and purchases should be made transparently. |
| (ii) | The full amount was remitted to the supplier electronically before shipment of the goods without opening letters of credit for payment purposes.<br>Accordingly, the company had put the company at risk regarding these transactions as the full amount had been paid before shipping the goods without obtaining a bond from the supplier. | That necessary steps have been taken to open letters of credit and make purchases in consultation with the concerned institution. | The payment process should be done in such a way that the risk is minimized. |
| (iii) | Although quotes were obtained from only one supplier to import of 03 Slurry Pump and 03 SS 304 Impeller of required to production of table salt, it was mention as an emergency purchase and it had not followed the procurement procedure also. The value was Rs.2, 598,140 and the purchase process had taken 14 months. Accordingly, it is observed that this purchase is not an emergency purchase. | The purchase was delayed due to the delay in giving a decision after discussion between the then CEO and the chairman, and the then chairman again changed the company's procurement plans and recommended purchasing under the departmental purchasing system. | Management should work to prevent possible losses by identifying the need precisely and timely and performing the procurement process more efficiently. |

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| (iv) | There was no agreement between the concerned supplier and the company. The company had always complied with the terms of the supplier. | Not commented. | Formal agreements should be entered into with spare parts and service suppliers. |
| (v) | A period of 14 months had been spent for the process related to this purchase and during that time the supplier had increased the prices of the goods on 03 times. Accordingly, due to inefficiencies in the overall purchasing process, the company has to pay Rs. 560,278 had incurred a loss. | In relation to this purchase, the prices have changed on 03 times and therefore the prices mentioned in the first invoice have been paid more. | Procurement guidelines should establish efficient procurement procedures. |
| (vi) | For the Centrifuge, Rs. 8,145,640 is applicable on purchase of spare parts<br>Since the beginning, quotations had been made from only two foreign companies that had purchased spare parts, but the company had not entered into an agreement with the relevant supplier companies.<br>[ | Not commented. | Procurement guidelines should be followed. Contracts should be entered into with service providers. |
| (vii) | According to the submitted indent sheet, it was stated that there is no stock on October 8, 2021 regarding 04 items to be purchased, but on that day there were 12 units of stock in the warehouse related to these 04 items, so false documents were submitted to highlight the need for purchase. | Not Commented. | Purchase requisitions must be submitted with correct stock balances entered. |
| (viii) | Since 17 months had been spent for the process related to this purchase and during that time the supplier had increased the prices of the goods at one time and due to inefficiencies in the entire procurement process, the company incurred Rs.677,846 had incurred a loss. | Since the letter dated June 07, 2022 informed that the price of the goods has been increased<br>That the quotations were called again and since the quotations were received only from the first selected supplier, it was decided to buy from the supplier whose prices were raised. | An efficient procurement process should be established. |
| (e) | Since year 2010, 15 stock items was Rs.2,234,655 purchased and Without properly identifying the requirement, which was purchased from the year 2015, 22 types of motors and 05 gearboxes of value Rs. 3,467,862 were actually in storage unused. As on December 31 of the year under review, the warranty period of these goods had also expired. | Through a procurement process without consulting the main Stores, that orders are placed by the purchasing department through a procurement process based on the requirements of the Plant department and the mechanical department, and that the management has been informed in this regard as they | Requirement should be identified and purchases should be made accordingly. |

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| | | are in stock due to non-use and the warranty period of these motors has also passed. | |
| (f) | By February 22, 2023, 174 Stock items which costs Rs. 1,160,355, and had not been submitted for audit, also had been kept unused in the stores for a long time.<br>Although on November 29, 2018, 06 units of spare parts belonging to 03 types were purchased for Rs. 1,748,082 and while the equipment remained unused in the warehouse, 2 units of those parts were purchased again for Rs.1,163,994 on 18 June 2019. As of 22 February 2023, Without specifically identifying requirement those 10 spare parts remained idle in the stores due to purchase. | That the purchase requisition has been submitted by the procurement department without inquiring about the remaining stock in the stores and those items were unused in the stores since the year 2018. | The stocks must be ordered after inquiring requirements. And the losses should be recovered from responsible parties which was purchased of unnecessary stocks. |

### 3.3 Procurement Management

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| As per paragraph 4.2 of the Procurement Guidelines Code 2006, A master procurement plan and an approved procurement plan presenting detailed procurement activities had not been prepared. | It had been planned to proceed according to a three-year procurement plan from the year 2023 and the procurement plan in the year 2022 will be operational from the middle of the year. | According to the provisions of the Code of Procurement Guidelines Procurement should be planned. |

## 4. Accountability and Good Governance

### 4.1 Corporate plan

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| According to the Corporate governance and Operations Manual paragraph 2.3 of the Code of Guidelines For government owned companies, the Company had not prepared a corporate plan for audit. | Corporate plan has been prepared by now. | A Corporate plan for 05 years should be prepared according to the expected roles of the company. |

### 4.2 Annual Action Plan

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| According to the Corporate governance and Operations Manual paragraph 2.3 of the Code of Guidelines For government owned companies, the Company had not prepared an action plan for audit. | Action plan has been prepared by now. | According to the expected roles of the company, an action plan should be prepared for each year and practiced accordingly. |