

Lanka Salt Ltd - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Salt Ltd for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 of the Company give a true and fair view of the statement of financial positions as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Si Lanka Accounting Standards for Small and Medium Enterprises.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, 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 Auditor's Responsibilities 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the company;
- Whether the company has performed according to its powers, functions and duties; and
- Whether the resources 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 Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 1.2 of the Sri Lanka Accounting Standards for Small and Medium Enterprises 01, even though Lanka Salt Limited cannot be recognized as a small and medium scale business, The Company had followed Sri Lanka Accounting Standards for Small and Medium Enterprises in the presentation of its financial statements for the year under review.	Comments were not given.	Financial statements should be prepared according to Sri Lankan accounting standards.
(b) According to paragraph 10 of Sri Lanka Accounting Standard No.37, although the company's contingent liabilities should be identified based on the management judgments and disclosed in the financial statements according to paragraph 86 of the standard, Contingent liabilities in relation to a case related to the recovery of mineral tax assigned by the Provincial Revenue Commissioner against the company on 31 December of the year under review had not been identified and disclosed in the financial statements.	Comments were not given.	Standard should be followed.

- (c) Since the effective lifetime of non-current assets was not reviewed annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No.16, the value of fully depreciated non-current assets as of 31 December 2023 was Rs.314,102,392. Among those assets, the assets that will be further used are not identified and their effective lifetime is not accurately reviewed and accordingly, the estimated error that has occurred was not revised in according to the paragraph 32 of Sri Lanka Accounting Standards No.08 and, the correct carrying value had not been shown in the financial statements.
- Fixed assets are being verified. That it agrees to take necessary action to revise the effective lifetime as soon as it is completed.
- It should be act according to the standard.

1.5.2 Accounting Deficiencies

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) In the Water Supply Scheme included in the building asset class, although 89 plastic water tanks worth Rs.1,155,453 and 02 bowser tanks worth Rs.245,433 which can be clearly distinguished from buildings were included and depreciated at 2.5 percent per year, an effective lifetime of 40 years was not represented by the asset.	Agree to set aside this after asset verification.	Appropriate action should be taken and necessary adjustments should be made in the financial statements.
(b) The revaluation reserve of Rs.4,966,100 shown as revenue reserve had been transferred to retained earnings inconsistency with Sri Lanka Accounting Standard No.16 and since the error was not corrected during the year under review, the retained earnings were overstated and the revaluation reserve had been understated in the financial statements.	That the adjustments have been made as per a decision taken at the Audit Committee meeting held in December 2020.	Capital reserves and revenue reserves should be shown separately.
(c) An amount of Rs.7,579,030 was missing from the income received from the transportation of salt in the year 2019 and that amount was stated as transport income receivable in the financial statements and provisions for bad debt had been made for the full amount. Accordingly, the information regarding this financial fraud had not been disclosed in the financial statements.	Consent that it should to be disclosed.	Clear and adequate disclosure should be made regarding financial fraud.

- (d) The stock valuation reports relating to the salt stock of Rs.333,100,507 shown in the statement of financial position as at 31 December of the year under review were not submitted to the audit. That has been provided by now. Detailed stock valuation reports should be submitted.

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

Reference to Laws, Rules and Regulations	Non-Compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Financial Regulations No. 110	The company had not maintained a damage and loss register to record losses during the last 05 years.	Comments were not given.	It should be act according to the regulations.
ii. F.R. 371 (2) (b)	The total amount of outstanding advances in 44 cases from the year 2012 to 31 December 2023 was Rs.7,624,074.	Rs.47,600 only to be settled relating to advances in previous years. It is 2.9 % of the total advance value. All the rest consists of Rs.15,620 given in December and November 2023. That this amount of 7.6 million is the value to be settled further in relation to the previous years.	-do-
(b) PED 01/2021 Public Enterprises Circular dated 11 November 2021			
i. Guidelines and Operations Manual for State Owned Companies			

Paragraph 3.1	The approval of the General Treasury had not been obtained for the number of employees and remuneration of the company.	Accounting and operational activities are being maintained with severe difficulties for a long time without properly filling the vacancies in the accounting department.	Actions should be taken to obtain the approval of the General Treasury.
Paragraph 3.2	The cadre recruitment scheme of the company had not been submitted to the Department of Public Enterprises with the recommendations of the line ministry and approved.	Comments were not given.	Actions should be taken to obtain the relevant approvals.
Paragraph 3.3	There was no organization chart with approved staff for the company.	Comments were not given.	Organizational charts with approved cadre should be prepared.

2. Financial review

2.1 Financial Results

The financial result for the year under review was a profit of Rs.1,190,670,868 and correspondingly the previous year's profit was Rs.701,932,164. Accordingly, A growth of Rs.488,738,704 was observed compared to the previous year in the financial result. This growth was mainly due to the increase in income by Rs.1,750,315,000, although the expenditure increased by Rs.1,261,577,000 in the year under review.

2.2 Trend analysis of major revenue and expenditure subjects

Description	2023 Rs.000	2022 Rs.000	Increase (decrease) in income Increase (decrease) in expenditure Rs.000	Percentage (%)
Sales Revenue	4,022,659	2,652,579	1,370,080	52
Cost of Sales	1,873,746	1,355,717	518,029	38
Other Income and Grants	82,439	29,307	53,132	181
Selling and Distribution Expenses	142,379	71,122	71,257	100

Administrative Expenses	684,055	375,870	308,185	82
Other Expenses	102,034	89,451	12,583	14
Financial Expenses	372	616	(244)	39
Financial Income	453,693	126,590	327,103	258
Tax Expense	565,534	213,767	351,767	165

The sales revenue had been grown by 52 percent compared to the previous year. And also the company's selling and distribution expenses and administrative expenses had grown by 100 percent and 82 percent respectively.

2.3 Ratio Analysis

Description	2023	2022
Current asset ratio	2.83	3.51
Quick asset ratio	2.17	2.56
Gross Profit Ratio (%)	53	49
Net Profit Ratio (%)	29.6	26

Compared to the previous year, the current ratio has decreased from 3.51 to 2.83 and the quick asset ratio has decreased from 2.56 to 2.17 and therefore a decrease in company liquidity has been observed compared to the previous year. It was observed that the profitability of the company has increased as the gross profit ratio has increased from 49 to 53 percent and the net profit ratio has increased from 26 to 29.6 percent.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Palatupana Saltern		
i	The 16.27 metric tons of salt with the current market value of Rs.520,640 obtained in the year 2020 had been store on the platform for over 03 years and therefore it was subject to melting with the color changed.	Comments were not given.	Actions should be taken to prevent stock losses and sell old stock.

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| ii | The polythene and coconut branches that covered 569.25 metric tons of salt worth Rs. 27,324,000 in the super grade class completed 31 on March 2022 had decomposed and mixed with the salt and the salt had melted in the pile. As a result, the quality of the salt had deteriorated. | Comments were not given. | Actions should be taken to prevent stock losses and sell old stock. |
| (b) | Bundala Saltern
The 73.98 metric tons of salt produced in the years 2016, 2018, 2019, 2020 and 2021 with a current market value of Rs.2,342,398 had not been sold. | Comments were not given. | Actions should be taken to sell the old stock. |
| (c) | As the material required to cover the salt harvest obtained in the year under review had failed to be supplied in proper quantity at the appointed time, 1816.19 metric tons of salt worth Rs.65,425,279 had been damaged. | Comments were not given. | The responsible officers should be identified and the losses should be recovered. |

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Operations in main Warehouse		
i. The responsible officers had failed to keep the main CCTV security camera system in warehouse up-to-date in working condition since 2019.	That agree.	CCTV security camera system should be kept up to date.
ii. Even though a computerized stock management software should be used considering the quantity, value and movement of stock in the warehouse, all stock records were maintained manually. Due to this, the accuracy of stock records was not high and the company had lost the opportunity to adopt a system of automatic notification of stock levels.	That agree.	A computerized inventory management software should be used.
iii. The 15 wholesale items with a value of Rs.2,233,655 purchased since 2010, 22 types of motors and 05 gearboxes with a value of Rs.3,467,862 purchased since 2015 and 422 warehouse items worth Rs.2,156,526 purchased since the year 2008 were kept in idle in the warehouse without use. Accordingly, it is observed that these goods have been purchased without properly identifying the need.	That agree.	Needs should be identified and purchases should be made accordingly and losses should be recovered from responsible officers.

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| (b) | The clerk who records the night shift check rolls of the department had falsely recorded the names of 04 employees in the check rolls and fraudulently paid an amount of Rs.111,600 for 52 shifts. | Comments were not given. | Disciplinary action should be taken. |
| (c) | According to the decision No. 421.11 of the Board of Directors dated 19 March 2019, the salt transportation fees for transportation made by using company's lorries should be included in the invoice without being received in cash by the drivers. On the contrary, as per the instructions given by the General Manager of the company in the letter addressed to the transport manager dated 10 June 2019, the lorry drivers had received the transport charges in cash and handed them over to the cashier of the company. Although a receipt should be issued for all cash receipts according to F.R.168, the cashier did not issue receipts for an amount of Rs.7,586,119 received as transport fees in the years 2019 and 2020. It was revealed that the money had been misused without being banked. | Although it was decided that the value added tax related to the transport value should be obtained from the salt agencies after taking the value of the salt and the total transport value, the General Manager had given instructions to bring the transport money in cash. | Disciplinary action should be taken against the responsible officers and the loss incurred to the company should be recovered. |

3.3 Procurement Management

Audit Observation

Comments of the Management

Recommendation

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| (a) | As per paragraph 4.2 of the Procurement Guidelines 2006, an approved procurement plan showing the main procurement plan and detailed procurement activities was not prepared. | Comments were not given. | Plan of procurement activities should be prepared. |
| (b) | 02 Pusher Plate worth Rs.2,846,010 purchased under emergency purchases on the recommendation of the Chief Engineer were not suitable for plant and remained idle even by the end of the year under review. It had been taken over 17 months to complete this purchase. | That it is proposed to conduct an inquiry into these matters. | Disciplinary action should be taken against the responsible officers and the loss incurred to the company should be recovered. |
| (c) | Although it was planned to start the production of salt from February of the year under review, the supply department had failed to efficiently purchase the covering materials required for that goal. The Palatupana area received 323.9 mm of rain and the Bundala area received 317.4 mm of rain during the month of September 2023 and therefore the quantity and quality of the salt harvest was damaged. | Even there was an unexpected effect of weather, that the relevant polythene was provided before the rains. | Necessary purchases should be made efficiently. |

(d) Purchase of packaging materials

- i. According to No.3.6 of the Government Procurement Guidelines, if the relevant procurement committee ensures that there is no objection to the re-ordering, re-ordering for the procurement of goods up to the limit of 50 percent of the original contract value may be authorized only in special cases. On the contrary, 1.5 million packs of 01kg Laklunu worth Rs.23,925,000 and 01 million packs of 400g table salt (blue) worth Rs.7,400,000 had been purchased from a private company without the approval of the procurement committee.
- A formal investigation is underway for this.
- Responsible officers should be identified and disciplinary action should be taken.
- ii. While 01kg Laklunu packs and 400g table salt packs are in the institution for next 68 days and 61 days respectively, apart from the procurement procedure, 01 kg Laklunu and 400g table salt packs were purchased for Rs.15.95 and Rs.7.40 each respectively on 02 November last year. Since the tender price on 17 November of last year was Rs.8.65 and Rs.4.05 respectively for these packages, the company had incurred a loss of Rs.16,230,031 due to the purchase of these reorders.
- A formal investigation is underway for this.
- The loss incurred by the company should be recovered from the responsible officers.

3.4 Vehicle System Management

Audit Observation	Comments of the Management	Recommendation
(a) According to Article 104 (3) of the Monetary Regulation Code of the Democratic Socialist Republic of Sri Lanka, the initial report must be submitted within 07 days from the date of loss and according to Article 104 (4) a full report must be submitted within three months from the date of loss. Initial reports and final reports were not submitted regarding vehicle accidents and damages that had occurred in 07 cases during the year and the year under review.	Since 1996 till 2022, this institution has not followed the government business circulars. That they are currently working under formal methods.	It should be done according to the regulations.

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| (b) | According to the guidelines issued by Asset Management Circular No. 04/2018, the value of non-financial assets should be assessed every 05 years on December 31 of the relevant year, but after 2016, the value of 157 vehicles owned by the company had not been assessed | Due to the situation of the Corona crisis in the country and the disruption of the country's activities, the receipt of these assessment reports has been delayed, but the relevant assessment has been carried out at the end of 2023 through the assessment department. | Should be done in circular manner. |
| (c) | According to Asset Management Circular No. 05/2020 and F.R. 770(4) and 770 (a), (c), although the vehicles that are not in running condition and cannot be repaired should be disposed, it had not been act accordingly for 07 vehicles owned by the company that were taken out of service. | Comments were not given. | Relevant circulars should be covered. |

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation

Comments of the Management

Recommendation

The company's Corporate Plan was not submitted for audit.

Comments were not given.

Corporate Plan should be prepared and submitted.