

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Mineral Sands Limited (“Company”) 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 Responsibility on 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 3 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 related to the preparation of financial statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
The company had given an amount of Rs. 500 million to the State Resource Management Corporation on 10 January 2012 and the interest amounting to Rs. 517,421,448 had been written off last year with the approval of the board of directors. The action instituted to recover this loan had not been settled and the company's financial statements had not disclosed regarding this case in accordance with Sri Lanka Accounting Standard No. 37.	Arrangements will be made to make relevant disclosures in the accounts in the coming financial year.	Contingencies should be disclosed in the liability financial statements in accordance with accounting standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the amount of overpaid cess tax due from the Customs Department was stated as Rs.30,000,000 in the financial statements, according to the assessment notice dated 29 September 2023 received from the Customs Department, since the amount was Rs.33,000,000 it had been understated by Rs.3,000,000 in the financial statements.	The transactions in which the company had received goods in the year 2023 held in the advance account. Due to this, confirmation was not called for these items. But the advances also had items to put GRN in the year 2024. Efforts will be made to avoid such problems in the coming year.	Cess receivable should be properly accounted in the financial statements.
(b) The value of Rs. 74,583,515 payable to the said department due to the mining of sand in excess of the quantity of sand cubes to be mined in relation to 5 licenses issued by the Department of Coastal Resources and Coastal Resource Management to the company for the period from 2017 to 06 September 2021 for mineral sand mining. Had been agreed to pay in five years. During the year under review, although Rs.15,960,707 had been shown under	The amount of Rs.15,966,703 indicated as allocations under Note No. 30 of the statement of financial position is the annual allocation of the amount to be paid for obtaining mineral sand licenses for the relevant Coastal Conservation Department.	All liabilities should be accounted.

current liabilities, the balance of Rs.58,622,808 which should be shown under non-current liabilities had not been accounted.

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| (c) | From 13 December 2023 to 12 December 2024, a license had been obtained from the Department of Coastal Conservation by paying Rs. 15,000,000 for 30,000 cubes of mineral sand and the company had excavated 287 cubes of sand till 31 December 2023. Rs.14,856,500 paid for the remaining 29,713 sand cubes had been recorded as an expense instead of being recorded as advance payment. | In preparing the accounts for the year 2024, corrections are made to the previous year's profit and the 2024 license fee account. | Actions should be taken to account prepaid expenses properly. |
| (d) | Due to the fact that balances of 24 creditors settled in the years 2021 and 2022 amounting to Rs.2,109,897 were included in the closing creditor balance of the year under review, the creditors had been overstated by that amount. | Actions are taken to correct in the accounts in 2024. | Payments to creditors should be accounted accurately. |
| (e) | Due to the decrease in interest income by Rs.314,586,495 and the increase in other current assets by Rs.42,928,783, a value of Rs.271,657,712 had been shown in the cash flow statement instead of the cash inflow of Rs.473,522,169 which was the net effect on the cash flow statement. | I submit the cash flow statement after making the relevant corrections. | Cash flow statement should be prepared as per the provisions of Sri Lanka Accounting Standard. |
| (f) | No provision had been made for the tax amount of Rs.24, 805,590 payable to the Inland Revenue Department. | The Inland Revenue Department has informed the company that there are arrears of PAYE, VAT and ESC taxes of Rs.24,805,590. According to the relevant document, the arrears of income tax to be paid for the years 2012/13, 2014/15 including ESC is Rs.23,118,196. Tax appeals related to arrears for the year 2014/15 have been submitted and the decision for the relevant appeals is to be received. However, the Inland Revenue Department has settled the arrears from VAT refunds during the tax year. Accordingly, Rs.23,118,196 have been settled for Income Tax and ESC and | The taxes payable should be accounted accurately. |

Rs.1,596,306 for VAT. Due to this fact, the amount cannot be shown as a payable balance in the accounts.

1.6 Non-compliance with laws, rules, regulations and management decisions etc

Reference to laws, rules, regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Treasury Circular No. PED/P/2/25 (1) dated 20 November 2019	Rs. 10,682,850 had been paid for Corporate Social Responsibility (CSR) in the year under review against the circular.	According to the request of the Galle district secretary, 2000 parcels of goods including dry ration of Rs. 6 million have been given with the approval of the board of directors and the agreement of the ministry in the event of the flood disaster occurred in the southern province. The approval of the Treasury has not yet been received for this. As per the request of the Ministry of Industry, an amount of Rs. 5 million has been given for the 2023 Industrial Exhibition on the approval of the Board of Directors. This is not a social responsibility and should be treated as a sales promotion. Actions will be taken to act in a proper manner in respect of such transactions in the coming years.	Expenditure on Corporate Social Responsibility (CSR) should be incurred as per circular provisions on formal approval.
(b) Paragraph 3.5 of the Operations Manual introduced by public Enterprises Circular No. 01/2021 dated 16 November 2021	Two employees served in the company had been released to the Ministry of Industry without formal approval from 17 October and 29 November 2022 and contrary to the circular, the company had paid them wages, overtime allowances, other allowances totaling Rs. .3,818,937 including incentives on production of Rs. 293,500,	The Ministry of Industry has informed the Ministry of Industry to release two employees of our company and pay them salaries and allowances. However, through LMS/ET/A/50 and the Secretary's letter addressed to the Ministry of Industry dated 16.11.2023, efforts have been made to raise awareness in this regard and there are copies of the relevant letters. The driver who has been released to the Ministry has been brought back and has been employed in the main office.	Actions should be taken to bring back the employees who were released as per the circular, to the company and recover the salaries and allowances paid from thje Ministry.

(c) **Secretary to
the
Treasury's
letter No.
CE/PDCB/1
4/02 dated
30 March
2004**

- (i) Despite the attendance allowance was approved at Rs.500 per month, it had been increased upto Rs.3,000 from time to time based on the Board of Directors' decisions and the Treasury approval had been obtained therefor. During the year under review Rs.3,327,600 had been paid to head office employees and Rs.15,326,870 to Pulmude plant employees as attendance allowances.
- We have sent for the approval from the Department of Management Services of the Treasury in respect of Rs. 3,000 we are currently paying and the necessary approval has been given to us by the said department and the request to increase the attendance allowance proposed by us has not been approved.
- Allowances should be increased on Treasury approval.
- (ii) While the food allowance was approved at Rs.35 per day, it had been increased from time to time up to Rs.200 per day by the year under review on the basis of decisions of the Board of Directors without the approval of the Treasury. During the year under
- We addressed the Department of Management Services of the Treasury to get approval for the allowance for which we are currently paying Rs. 200 as food allowance and the approval was received from that department and the request to increase the food allowance proposed by us was not approved.
- Allowances should be increased on Treasury approval.

review
Rs.4,194,400 had
been paid as food
allowance to head
office workers and
Rs.246,920,100 to
Pulmude plant
workers.

(d) **Public Finance
Circular No.
01/2020 dated
28 August
2020**

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| <p>(i) Paragraph
9</p> | <p>Advances of Rs.735,175 given on 11 occasions from 10 June 2023 to 29 December 2023 to the Supply Officer of Pulmude Plant had not been settled even at the end of the year under review and arrangements had been made to give advances again before the said advances were settled.</p> | <p>Advances are given for some maintenance work in machine plant and maintenance work of loader etc. Advances are usually given to an executive officer. New advances are made before the previous advances are settled for plant breakdowns and emergencies. There is also a delay in the settlement of advances and henceforth the advance payment and settlement activities will be handled as per paragraph 9 of the Public Finance Circular 1/2020. Accordingly, there is currently no balance to be recovered.</p> | <p>Advances should not be given before they are settled.</p> |
| <p>(ii) Paragraph
11</p> | <p>As on 31 December 2023, the annual survey of fixed assets of the company had not been conducted and reports had not been submitted.</p> | <p>Due to unavoidable circumstances, the Annual Survey of Fixed Assets was delayed and the survey has been arranged to commence from 15 July 2024.</p> | <p>Actions should be taken to complete the annual fixed asset survey on due date.</p> |

2. **Financial Review**

2.1 **Financial Results**

The operating result of the reviewed year was a profit of Rs.4,050,724,331 and correspondingly the profit of the previous year was Rs.6,160,424,037. Accordingly, it was observed there was a deterioration of Rs.2,109,699,706 in the financial result. Although other operating expenses decreased by Rs.404,231,368 and financial income increased by Rs.624,794,615, This decline was mainly due to facts that distribution cost, administrative cost increased by Rs.62,634,849 and Rs.13,993,174 respectively and income decreased by Rs.2,658,595,672.

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to Cabinet Paper No. 12/1383/527/012-1 submitted by the Minister of State Resources and Enterprise Development on 22 October 2012 and Cabinet Decision No. අමස/20/0226/224/006 dated 12 February 2020, Although the company had recognized the need to focus on sending value added products abroad without exporting mineral sand in raw material form, the company had not taken the necessary steps for it till 31 May 2024 which was the date of audit.	The project proposal for the Zircon Powder factory related to the value addition process was rejected by the TEC as it was not a suitable proposal for the company. Accordingly, the company has decided to re-invite tenders. Currently, activities are being done at the ministry level.	According to the decision of the Cabinet of Ministers, necessary measures should be taken for of value added products export.
(b) During the period 2020-2022, 06 advance balances of Rs. 1,322,750 paid to the external party had not been recovered	Advances worth Rs.1, 322,750 values of six advances given by the institution to external parties are being settled.	Arrangements should be made to recover the advance payments made to external parties.
(c) 126 various creditors' balances exceeding 3 years amounting to Rs.6,116,174 had not been settled by the end of the year under review.	Various creditors have to release Rs. 6,116,174 for 126 balances In the years 2021 and 2022. As per the instructions of AMC, actions will be taken to verify the balances from the respective creditors and after the relevant verifications, the payables will be paid and the balance will be credited to the company's account.	Actions should be taken to settle the debt balances.
(d) Four wheel loaders worth Rs.53, 695,105 and a lorry worth Rs.800,000 had been kept idle for more than 5 years in Pulmude's machinery premises.	Although the necessary maintenance work of these loaders, which were used a few years ago for the production work of the machinery plant, was done on several occasions, due to repeated faults in a short period of time, they were temporarily taken out of service.	Assets in idle type should be identified and appropriate action should be taken.

- (e) Approval has been granted 5 percent of the annual profit of the company to be distributed among the employees as incentives through the letter of the Additional Director General of the Department of Management Services No. DMS/IDEP/06/02 dated 14 February 2005. A request had been made from the Treasury on 2 August 2022 to pay an incentive based on the production of ilmenite without mentioning the said incentive paid on the basis of profit and the approval has been given through the letter No. PED/I/LMSL/3(iii) of Director General of Public Enterprises dated 29 November 2022. Thus, during the year under review, Rs.193, 679,110 had been paid as incentives on annual profit and Rs.84,156,325 as incentives on ilmenite production.
- The system of bonuses paid has been introduced on the basis of the annual net profit of the company. This allowance has been increased to 5 percent and the Public Enterprises Department has been informed by the letter of Management Services Department No. DMS/IDEP/06/02 dated 14.02.2005. Furthermore, the annual bonus of 5% is paid based on the total net profit of the company and the production incentive has been introduced as a new practical solution to the inability to approve the transportation allowance that existed until then.
- Actions should be taken to implement a correct system for company incentives.

At the beginning of the year under review, the company had 105,282 metric tons of mineral sand and the company had produced 111,286 metric tons of mineral sand during the year. Only 30 percent of mineral sand had been sold during the year. A stock of 187,951 metric tons of mineral sand valued at Rs.1,854,191,931 had been held in the warehouses of the plant and due to exceeding the warehouse capacity level, the production of ilmenite had to be stopped by May 2024. 53,856 Ilmenite tons which is the main mineral product, had been produced during the year under review and 78,287 tons were left at the end of the year and the company had not followed suitable sales promotion methods to sell these stocks. It could not be ruled out that an incentive system based on the production of ilmenite in the company led to this unusual production.

- (f) Although the company has 13 wheel loader machines, only 7 machines had been put into service during the year under review and the remaining machines had not been
- We have six old wheel loaders in permanently damaged condition, viz: PL-19, PL-21, PL-22, PL-23, PL-24, and PL-25. All of these
- Existing wheel loaders should be repaired as needed and used at maximum capacity.

repaired and used. The 06 machines put into service had been only employed for 17,343 hours during the year and the company had employed 21 wheel loader machine operators and paid Rs. 20,368,840 as wages, allowances and overtime in the year 2023. While all 7 wheel loaders were employed at maximum capacity, one loader was also employed at an hourly rate of Rs.12,400. The contract had been awarded at a price of Rs.2,900 more than the estimated rate while the contractor was selected at an estimated rate of Rs.9,500 per hour. From 17 November 2023 to 31 December 2023, the wheel loader was used for 817.9 hours and Rs.7,161,204 had been paid to the loader supplier.

loaders are approximately 10 years old and require significant repairs. It costs a lot of money. It seems pointless in investing in installing these loaders with their lifetime and the high cost of necessary repairs,

- (g) The company had 4 mining licenses issued by the Bureau of Geological Survey and Mines covering an area of 19.368 hectares at Pulmude, Thevikkallu, Poduvakattu and Kokilai. Under this, the company had excavated only 89,129 metric tons of coarse sand during the year and 5 private parties had provided 156,724 metric tons of gross sand excavated from private lands to the company for an amount of Rs.102,568,992. The company had informed the audit that the same mining license IML/A/HO/1623/LR/9 issued to the company had been used for those excavations. It was controversial to buy sand from outsiders even though the company had been granted permission to mine mineral sand and had sufficient resources

The company has 4 licenses issued by Geological Survey and Bureau of Mines and those licenses were issued for Pulmude, Podawakattu, Thevikkallu and Kokilai areas. In the issuance of these licenses, permission has been given to excavate up to 4 meters internally and up to 100 meters towards the coast and land. Excavation was not carried out in the areas of Podawakattu and Thevikkallu. When getting sand from private suppliers near Pulmude coast, the relevant land of those suppliers was located within the license limits, i.e. within 100 meters, so there is no need to get licenses again. Due to the existence of a high concentration level of heavy mineral sand in those lands, with the full agreement of the land ownership, the relevant mining activities were carried out by the company in a correct and effective manner with the approval of the Kuchchaveli Divisional Secretary.

Correct rates should be used while carrying out the mining on private lands.

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| (h) | Retention for construction and repairs of Rs. 3,888,487 related to the years 2013, 2015 and 2016 included in the trade and other creditor account had not been settled even by the end of the reviewed year. | Payments have still to be paid for the building construction and repair contractors of the plant in the years 2013, 2015, 2016. Due to their existing problems, they have not been able to make the final payments and thus have not been able to release the retentions. | Retentions should be settled upon Ensuring completion of relevant work. |
| (i) | Due to lack of proper financial management, an overdraft interest of Rs.4,360,217 had to be paid due to bank overdrafts obtained on two occasions during the year under review. | Payments have still to be paid for the building construction and repair contractors of the plant in the years 2013, 2015, 2016. Due to their existing problems, they have not been able to make the final payments and thus have not been able to release the retentions. | Actions should be taken to proceed in accordance with a Proper financial management. |

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A land of 17.69 hectares had been purchased on 13 February 2013 at a cost of Rs.2.25 million for the construction of a new plant at Kokilai in Mulaitivu district during the period 2022-2026. In the same year before planning the plant work, a spiral machine had been purchased for Rs. 39,339,472 and the said machine had been kept idle in the Pulmude plant. Although 117 workers had been recruited for the Kokilai plant in 2015, the work of the project had not started until the end of the year under review and those recruited workers had been employed for the Pulmude plant. According to the action plan of the year under review, although the company had planned to establish the Kokilai project with the aim of producing 100,000 MT of ilmenite during the period 2023-2026, no steps had been taken during the year under review.	These machines were ordered and installed at the Pulmude plant to avoid idling of these spiral machines in the hope of getting the Kokilai mining license soon. After the installation of the spiral machines, there were some errors in these machines and it is currently being discussed with the relevant mother company to rectify the error. As the 117 employees who were recruited in 2015 have now retired, resigned and dismissed, the remaining employees of the plant have been replaced to the vacant labour positions and as they have been employed in the production process of the plant, they contribute to institutional production. The proposed site for the construction of the plant has been developed using soil and gravel and the project proposal and business plan have been submitted to the board of directors.	Arrangements should be made to start the Kokilai project work soon.

- (b) The applications for 7 new exploration licenses requested by the Bureau of Geological Survey and Mines were rejected on 25 May 2023 due to the failure to submit a mining plan for the next 20 years. Accordingly, by the end of the reviewed year, No exploration will be done except for the renewal of existing mining licenses.
- The Department of Industry has discussed with the Department of Forestry for the immediate release of these areas. The Ministry will inform about the necessary measures to be taken in the future. Further, the application forms for obtaining 7 mineral sand exploration licenses were handed over to the Geological Survey and Mines Bureau about two years ago and the relevant approval has not been received until now and at present, the Geological Survey and Mines Bureau taking actions to deliver to private institutions based on the new regulations of the Grid.
- Actions should be taken to prepare a mining plan and exploration permits should be issued.
- (c) The licenses obtained for the mining of mineral sand on a land of 0.5041 hectares in the Poduwakattu area had become invalid as no mining activity had been done or the license had been renewed and the amount of Rs.1,284,500 spent for it had been an idle expenditure.
- Under the license IML/A/HO/N/14732, the company had to stop the work due to strong objections from the people of the area while planning the activities to remove the coarse sand from the respective land. Further, since Initial Environmental Examination (IEE) has been conducted in this area to cover up to 300 meters, the licenses can be obtained after submitting to the Geological Survey and Mining Bureau after finding out which private and state lands are available and giving the corresponding maps, after obtaining the consent of the divisional secretary on the consent of the private landowners in obtaining mining licenses.
- Licenses should be properly utilized and mining activities should be carried out.
- (d) During the year under review, no mining activities had been carried out under the 02 mining licenses obtained for mineral sand mining in the areas of Poduvakattu and Thevikkallu for a period of 10 years from August 2018 to August 2028. Further, a permit at a cost of Rs. 18,395,247 had been obtained for the mining of 1.368 hectares of mineral sand on the beach
- Licenses have been obtained for an area of 06 hectares under the license No. IML/ A/ HO-4047/ LR-7 obtained for Poduwakattu area. EIA has been done in order to extend the 100 meter limit given under this license to 300 meters and survey work should be done first to identify the existing public and private sector lands in that area. License No. IML- A- HO-4048-
- Licenses should be properly utilized and mining activities should be carried out.

from Kokilai to Kokkuthuduai for the period from 08 September 2023 to 07 September 2024 and but no mining activities had been carried out till 31 May 2024, the date of the audit.

LR7 has been obtained by the company covering Thevikkallu area. The Department of Coastal Conservation and Coastal Resource Management gave instructions to carry out an IEE in order to increase this 100 meter limit to 300 meters. Discussions are being held with the government institutions that own the land in order to obtain the land owned by the government in this area immediately and after receiving the approval of those institutions, excavations will be started in this area. The activities had to be temporarily stopped due to objections of fisher folk.

- (e) Mining license bearing No ML/A/HO/1623/LR/9 had been issued to Ceylon Mineral Sand Company for the mining of mineral sand in the area of Arisimale, Jinnapuram in the Grama Niladhari Division of Pulmude from 15 August 2018 to 20 February 2028 by the Bureau of Geological Survey and Mines. During the raid conducted on 21 September 2023, the same bureau had discovered that unauthorized excavations had been carried out outside the geographic coordinates of the boundaries of the mining site mentioned in this license. The company had illegally excavated the estuarine reserve area from Kokilai Lagoon to Ranveli Naval Base in Pulmude, which has been identified as ecologically sensitive areas. Although the coastal conservation permit to be obtained before carrying out the mining permit expired on 21 August 2023, the company had excavated 9,623 metric tons of coarse sand even after that date.
- The officer of the Geological Survey and Mining Bureau who raided Ceylon Mineral Sands Institute in violation of the licensing laws On 21 September 2023, was aware only of the original permit issued by the Geological Survey and Mining Bureau, and He was not aware of the letter dated 15.08.2018 bearing No. IML/A/HO/1623/LR/9 issued by 06 months later amending the relevant original permit. Accordingly, when the relevant industrial mining license was issued on 20.02.2018, the mining license was issued for 07 hectares with a width of 30 meters. Yet in subsequent field inspections, the Coastal Conservation Department has given approval to expand the excavation width to 100 meters. Accordingly, the mining area has been restored and expanded to 18 hectares and the width of 30 meters has been increased to 100 meters through the letter of the Director General of Geological Survey and Mines Bureau dated 15.08.2018 bearing No. IML/A/HO/1623/LR/9.
- Excavations should be carried out within the boundary specified in the license.

- (f) A dryer machine had been imported on 30 June 2016 in order to save fuel costs by 50 percent and Rs. 45,120,142 had been paid for it, but actions had not been taken to make the machine usable and active.
- Activities were started to maintain the dryer at an operational level and 03 local companies were selected for that. Burner, software and mechanical parts of the dryer have been installed by those 03 companies and after commissioning in the next few weeks, it will be contributed to Zircon production.
- The machine should be put into use after formal agreements have been entered into.
- (g) Two mobile plants worth Rs. 264,784,592 had been purchased by the company with the aim of increasing the quality of mined mineral sand and reducing unnecessary transportation and operational costs in November of 2022 and although it was planned one machine worth Rs. 159,345,049 to be installed in the Poduwakattu project according to the action plan in 2023, it remained idle in the premises without being installed even by 30 April 2024.
- No objection letter was obtained from the existing government institutions in the area on the instructions of the Divisional secretary to release a land to install the other plant in the Podawakattu area. Accordingly, the construction of this plant is expected to begin subject to the approval of the Divisional secretary within the next few weeks.
- The purchased machine should be installed and the objectives should be fulfilled.
- (h) The value on value added tax of Rs.102,010,243 due from the year 2006 till the end of the year under review, which was stated as other current assets, had not been settled.
- VAT refund balance due as on 01/01/2023 is Rs. 132,923,572. VAT refunds worth Rs.33,634,766 have been received during the year 2023. Out of this, Rs.23,657,840 has been set off against taxes payable and an amount of Rs.9,976,926 has been written off by the Inland Revenue Department as non-allowable VAT. Arrangements will be made to settle the remaining tax liability.
- Arrangements should be made to settle the taxes due.
- (i) According to the sample test results conducted in the company's laboratory in the year under review, the percentage of mineral sand contained in the coarse sand was less than 39 percent and it was observed that 42 to 57 percent of tailings (white sand) had been removed by the "Block A" plant.
- This situation has arisen due to long-term coarse sand mining only along the coast of Pulmude in the year 2023. In the percentage of minerals given here, The company was able to generate a production of 53856 metric tons of ilmenavit, 2350.25 metric tons of rutile, 1899.50 metric tons of Haitian ilmenite and 556.04 metric tons of zircon in the year 2023.
- New mining areas should be identified.

- (j) According to the Board of Directors' decision No. 2021/298/12 dated 12 March 2021, although a dilapidated quarter located in Yanoya area had been repaired by the company at a cost of Rs. 9,393,420 in the years 2021 and 2022 as the Chairman's quarters, this quarter had not been used for any purpose and kept idle.
- It was not possible to prove the ownership of the Yan Oya land due to missing deeds. This cannot legally be run as a tourist bungalow. Therefore, efforts are being made to resolve the issue. At present, actions have been taken to give the Yan Oya bungalow to the staff and the institution on the basis of charging money to the service providers. After confirming the ownership of the land, arrangements will be made to provide it to foreign tourists as an eco-friendly tourist home.
- Arrangements should be made to put the official residence into a useful work.
- (k) The company's policy of inventory shortage and surplus adjusted to cost of production during the year under review had not disclosed in the accounts.
- Due to unavoidable reasons, the Annual Survey of Fixed Assets has been delayed and arrangements have been made to commence the survey from 15 July 2024.
- Actions should be taken to disclose the Stock policies properly.

3.3 Human Resource Management

Audit Observation

Comments of the Management

Recommendation

Contrary to the approved recruitment and promotion procedure of the institution, salary of Rs.120,175 each belonging to Senior Management Services category (HM) had been paid for the sales manager and Chemist employed in two positions belonging to the managerial service category (MM) and the salary of Rs. 105,760 each belonging to the senior management service category (HM) had been paid for an officer employed in the post of administrative officer, a position belonging to the junior management service category (JM). Further, two Internal Audit Officers serving in 3 posts belonging to Junior Managerial Service Category (JM), a Supply Officer and an Accounts Officer belonging to Management Service Category (MM) had been paid at a rate of Rs.71,050, Rs.72,425, Rs.71,050 and Rs.69,675 respectively.

A committee was appointed to fix wages and its report was forwarded to the Board of Directors. There, as per the instructions of the Board of Directors, in order to proceed without prejudice to the concerned officials, No. Letter dated 06.06.2024 bearing LMS/ET/P/Salary Discrepancies has been sent to the Department of Management Services. As per the instructions received for that letter, further decisions are to be taken.

No recruitment should be made contrary to the approved recruitment and promotion procedure and should be established in the respective salary scales in accordance with the prescribed salary scales.

4. Accountability and good governance

4.1 Annual Action Plan and Performance

Audit Observation	Comments of the Management	Recommendation
Performance reports including the role played as per the action plan prepared for the year under review were not submitted for audit.	The performance report of the action plan has been submitted.	Actions should be taken to submit the Performance report for audit.