Lanka Salt Limited - 2024
----

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Lanka Salt Limited for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 report to Parliament appear in this report.

I do not express an opinion on the financial statements of the Lanka Salt Limited. Because of the significance of the matters discussed in the basis for Disclaimer of Opinion section in this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 in this report.
I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 disclaimer of 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;

- 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 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)	The Company had been followed Sri Lanka Accounting Standards for Small and Medium Enterprises in the preparing and presentation of its financial statements for the year under review. However, since Lanka Salt Limited does not satisfy the criteria for identifying a small and medium enterprise, the company's financial statements had not been prepared in accordance with applicable financial reporting standards.	A private auditing firm has stated that there is no obstacle to following Sri Lanka Accounting Standards for Small and Medium Enterprises, and regarding that will be discussed with the Board of Directors.	The company is required to prepare and present financial statements in accordance with Sri Lanka Financial Reporting Standards for future years.
(b)	Although the useful life time of property, plant and equipment should be reviewed annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No. 16, but among the non-current assets with a fully depreciated cost of Rs.313,464,630 as of 31 December of the year under review, the assets that will continue to be used were identified, their useful life time were accurately reviewed and estimated defects identified had not been revised in accordance with paragraph 32 of Sri Lanka Accounting Standards No. 08, and adjustments had not been made to the financial statements to the correct carrying amount by the company.	That the fixed asset verification audit has not yet been completed.	According to the standard, the useful lives of non-current assets should be reviewed annually and necessary adjustments should be made in the financial statements.

(c)	Although the Company's contingent liabilities are identified based on management judgments in accordance with paragraph 10 of Sri Lanka Accounting Standard No. 37 and it should be disclosed in the financial statements in accordance with paragraph 86 of the standard, as of December 31 of the year under review, action had not been taken to identify and disclose in the financial statements any contingent liabilities relating to a regarding a case filed against the company.	Agree to disclose.	Contingent liabilities related to the case should be identified and the necessary disclosures should be made in the financial statements.
(d)	Since the expenditure of Rs. 16,980,468 incurred for coconut cultivation during the year under review and in the previous year had been recognized as accrued expenses for the year, which is not in accordance with Sri Lanka Accounting Standards No. 41, the asset value and profit for the year had been understated by that amount.	Recurring expenses cannot be capitalized because the fair value of the asset has been exceeded.	The total expenditure should be properly identified as a biological asset and capitalized.
(e)	In accordance with Sri Lanka Accounting Standards 41 regarding biological assets, without adjusting for damage values and presenting them at the correct carrying value, a fallen and a unfallen coconut tree in Mahalewaya had been valued at a cost of Rs.12,500 and a fallen and a unfallen coconut tree in Bundala Lewaya had been valued at a cost of Rs. 61,313. Also, based on the above costs, during valuation and accounting, 443 fallen coconut trees and 262 unfallen coconut plants an understatement of Rs.5,467,793 was shown in the accounts.	Agree to include further details in the accounting notes related to coconut cultivation.	Biological assets should be tested for impairment in accordance with the relevant standards and, if impairment losses arise, the correct value adjustments should be made and the correct value should be accounted for.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the balances recorded under trade and other receivables as at 31 December of the year under review amounted to Rs.26,132,083, they remained uncollected for a period of 1 to 4 years, impairment tests had not been conducted and the necessary provisions had not been made in the accounts for that..	Further inquiries should be made and steps will be taken to recover the money.	Since there are clear reasons for performing an impairment test, an impairment test should be performed for such balances and adjustments or

			disclosures should be made in the financial statements, action should be taken against the relevant responsible officials for not collecting the loan balance on time.
(b)	The revaluation reserve of Rs.4,966,100 shown as revenue reserve in the financial statements had been transferred to retained earnings and since the error was not corrected during the year under review, the retained earnings were overstated by Rs.4,966,100 and the revaluation reserve had been understated by that amount.	Agreeing to be appointed as before again in the next year.	The relevant amount should be transferred from retained earnings to the revaluation reserve and the accounts should be corrected.
(c)	According to the calculations made by the audit, the total of fixed deposit investments and fixed deposit interest receipts shown under investing activities in the company's cash flow statement prepared for the year under review had been overstated by Rs.434,218,662, the value of income tax and dividend payments reported under operating activities was understated by Rs.38,892,627.	That the correct adjustments have been made, and no differences can be found, and it is agreed to present them in more detail from next year.	The cash flow statement should be prepared accurately based on the other financial statement balances, and steps should be taken to correct any inconsistencies.
(d)	The value of Common Salt included in the stock at the end of the year under review was over-accounted by Rs.2,484,094 when measured according to the size of the salt heap.	When preparing the final accounts, the University of Moratuwa accounted for the stock value calculated using a scientific method, and since that stocks had not been used at the accounts preparing time, that the no adjustments were necessary.	The end-of-year inventory should be accurately valued and accounted for.
(e)	Although a stock of Rs.47,498,405, which was held as unfinished salt in March 2025, had been accounted for as of 31 December 2024, Since it was not possible to move the stocks further due to the prevailing adverse weather conditions, the company's profit was also overstated by the amount due to the over-accounting of the unfinished stock	That the Work in Progress (WIP) is accurate according to the policy.	Adjustment should be done after the identified as an event after the balance sheet date.

(f)	Although constructions worth Rs. 3,941,786, which were accounted for as constructions under non-current assets as of 31 December of the year under review, had been completed during the year, they had not been transferred to the relevant asset classes and the related depreciation had not been accounted for.	That the construction is not finished.	Completed these constructions during the year should be transferred to the relevant asset class and depreciation should also be commenced.
(g)	101 plastic water tanks worth Rs.1,174,921 and 04 bowser tanks worth Rs.253,725, which could be specifically identified had been included to the water supply system which was included in the building asset class, and they were being depreciated at the same rate as the buildings, at 2.5 percent per year, without being depreciated at the appropriate rate as a separate asset category.	That he agree to correct after assets verification.	These assets, which not related under building assets, should be identified as a separate asset category and depreciated accordingly.
(h)	Although the value of assets under construction recorded in non-current assets as at 31 December of the year under review was Rs.18,297,580, during the inspection of the job cards related to those constructions, the cost of 05 constructions had been overstated by Rs.2,528,037 and the cost of 03 constructions had been understated by Rs.449,226.	That the true value has not been captured in the job cards.	The values recorded in the source documents related to construction should be identified and accurately accounted for.
(i)	An amount of Rs.7,579,030 from the revenue received from salt transportation in 2019 had been misplaced and although that value is shown as transport revenue receivable in the financial statements, a provision for the uncertain loans has been made, Information regarding this financial fraud had not been disclosed in the financial statements, and no steps had been taken to recover the relevant amount from the relevant responsible officers.	Agree to disclose.	Clear and adequate disclosures regarding financial fraud should be made in the financial statements, and formal investigations should be conducted and steps should be taken to recover the money from the parties involved.

1.5.3 Unreconciled Balances

	Subject	Value as per the Financial Statements (Rs.)	Value according to Corresponding Reports (Rs.)	Difference (Rs.)	Comments of the Management	Recommendation
(a)	Cost of Biological Assets	16,280,233	23,917,531	7,637,298	That is a value written off by an external private auditing firm at the time of capitalization.	The changes in the relevant balances should be compared and the relevant corrections should be made.
(b)	Accumulated depreciation of Biological Assets	2,092,375	9,729,673	7,637,298	That is a value written off by an external private auditing firm at the time of capitalization.	Corrections should be made by comparing the differences in the relevant balances.
(c)	Distress and festival loan balances provided to 16 employees	4,485,010	4,465,914	782,855	No answers have been submitted.	Corrections should be made by comparing the differences in the relevant balances.

1.5.4 Lack of Written Evidence for Audit

Subject	Amount Rs.	Unprovided Audit Evidence	Comments of the Management	Recommendation
Property, Plant and Equipment	1,693,182,851	Fixed assets register and annual survey reports	Asset verification is being carried out and the fixed asset register is maintained as a Microsoft Excel file.	A fixed asset register should be maintained and submitted for audit, and an annual asset survey should be conducted.

1.6 Receivable and Payable Accounts

Audit Observation	Comments of the Management	Recommendation
Although advances made for local purchases must be settled immediately upon completion of the relevant tasks, the total value of outstanding advances in 37 cases from 2012 to 31 December 2024 was Rs. 9,220,092.	No answers have been submitted.	Advances taken should be settled immediately after the relevant work is completed, and formal action should be taken against officers who have not settled their advances.

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

	Reference to Laws, Rules and Regulations	Non-Compliance	Comments of the Management	Recommendation
(a)	Paragraph 4.2 of the Procurement Guideline 2006	A master procurement plan and an approved procurement plan indicating detailed procurement activities had not been prepared.	No answers have been submitted.	Formal action should be taken against officers who have not prepared plans and steps should be taken to prepare a procurement plan in the future.
(b)	Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel combustion tests had not been conducted for 19 vehicles owned by the institution.	No answers have been submitted.	Action should be taken as per the circular.
(c)	Management Service Circular No. 2/2016 dated 25 April 2016	Although the Staff Recruitment Procedure (SOR) of State Corporations, Statutory Boards and Wholly State-Owned Companies relating to salary revisions of employees must be approved by the Department of Management Services, as of 31 December 2024, the company had not complied with that order.	No answers have been submitted.	Action should be taken as per the circular.

2. Financial review

2.1 Financial Results

The financial result for the year under review was a profit of Rs. 701,444,864 and correspondingly the previous year's profit was Rs. 1,190,670,867Accordingly, a decrease of Rs. 489,226,003 was observed in the financial result compared to the previous year, This was mainly due to a decrease in sales revenue and an increase in sales costs.

2.2 Trend Analysis of Major Revenue and Expenditure Subjects

Compared to the previous year, sales revenue had been decreased by 14 percent and cost of sales had been increased by 16 percent. Thus, although the number of sales units of the company has decreased compared to the previous year and the income has decreased accordingly, it was observed that the company's cost management was in a poor state, as the increase in the cost of sales incurred due to the increase in direct costs and staff costs related to the production of Common Salt.

2.3 Ratio Analysis

Although there was a slight decrease in the current ratio from 2.83 to 2.76 compared to the previous year, the minimum requirement has been completed. A positive change is observed in the current asset ratio from 2.17 to 2.40. The gross profit margin from 53 percent to 37 percent and the net profit margin from 30 percent to 20 percent had decreased. Accordingly, it was observed that the company's profitability had decreased significantly, mainly due to decrease in sales revenue, increase in depreciation of biological assets and increase in production costs.

3. Operational Review

3.1 Identified Losses

	Audit Observation	Comments of the Management	Recommendation
(a)	Fuel orders were issued for the car on 20 occasions from 21 February 2024 to 09 May 2024 to obtain 605 liters of fuel with a total value of Rs.224,431, but according to the daily running records, only 361 liters of fuel with a total value of Rs.133,888 had been recorded on 12 occasions. Although the order forms for the remaining 08 cases had been obtained by an office assistant, Rs.90,543 had been paid for 244 liters without take fuel. Furthermore, although bills were submitted stating that 32 liters of fuel worth Rs. 11,872 had been obtained for the order issued on 24 April of the year under review, the said quantities of fuel had not been supplied to the vehicle.	It is agreed that there has been misuse of fuel and that the filling station has been informed in writing that payments for the relevant orders will be stopped as per the instructions of the Chairman.	Formal investigations should be conducted and action taken against the relevant officers, and an internal control system should be formally established to recover losses incurred due to fuel misuse from the relevant parties and release fuel.

(b)	Since not maintaining maximum, minimum and safe stock levels for hydraulic oil (HD – 68), on 7 June 2024, due to the lack of hydraulic oil and the non-availability of machinery to support the production activities in the table salt production sector, the company lost Rs.811,617 in production value on that day.	It is reported that 12 metric tons of table salt production has been lost.	The value of products lost due to lack of stock should be properly investigated and recovered from the relevant responsible officers.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The company had been paid Rs.625,000 as bonuses in 2023 to 05 members of the Board of Directors representing state ownership without proper authority from the previous year's profits.	That the three out of the five directors have returned the bonus amount.	The remaining balance of unearned bonuses paid to directors should also be recovered promptly.
(b)	The company is not obligated to provide official residences as per section 10 of the revised appointment letter issued for the position of Assistant General Manager Internal Audit on 18 March 2024, it was stated that if provided, economic rent would be charged. Although the Rs.887,500 should be recovered from this officer at the rate of Rs.2,500 per day for accommodation at the Mahalewaya Circuit Bungalow for 355 days from 23 October 2023 to 14 October 2024 without formal approval, it had not been recovered, and the Advance Personal Income Tax (APIT) payable on this non-monetary benefit had also not been recovered. It was further observed that although the officer was provided a quarters in December 2024, he has not accepted it.	It is stated that action will be taken to recover the money in the future based on the decision of the Board of Directors, and that it is not possible to calculate personal income tax as it is considered a non-financial benefit.	The provisions of the appointment letter should be followed and the rent and pre payable personal income tax should be collected.

(c)	The lease agreements for the Mahalewaya and Koholankala lands, which were obtained from the Hambantota Divisional Secretariat for 30 years on a ground rent payment basis in 1994, had been expired in the year under review, it is observed that since the institution had not taken steps to update the agreements before the expiry of the validity period of those agreements, a certain risk situation may arise when using the said lands for production purposes.	No answers have been submitted.	Formal action should be taken against officers who have not taken timely steps to update the agreement.
(d)	The company had not been maintained a loss and damage register to record losses during the past 05 years.	No answers have been submitted.	A record of damages and losses should be maintained.

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	During the year under review, the institution had been evaluated the bids and selected the contractor based on conditions not included in the technical specifications when purchasing 6 water pumps and water motors worth Rs.5,852,800. The purchase order has been submitted including a value-added tax amount of Rs.892,800 without verifying the selected supplier's registration for value-added tax and In accordance with Section 8.9 of the Government Procurement Guidelines of 2006, an advance payment of 40 percent of the contract value (including VAT) or Rs.2,341,120 had been paid to the supplier without entering into a contract agreement and without obtaining advance security and performance bonds. The Technical Evaluation Committee had not verified whether the goods supplied to the company by the supplier were in accordance with the specifications. During a physical audit of the goods, conducted with the assistance of a Chartered Mechanical Engineer, it was found that the brand name of the goods had been stated as United Kingdom (UK) but, It was also observed that they were electric motors and water pumps manufactured in China, and the supplier stated that 04 motors and 06 pumps out of the goods supplied were brand new, but 04	Even if the procurement guidelines are followed, that the shortcomings may occur, since SPP pumps have been used as the most suitable pumps for the institution, those specifications have not been mentioned in the procurement notice, that the action will be taken to recover the excess amount paid from the amount due to the supplier, to recover any losses incurred if the service is not provided and that the advance payments were made before signing the contracts due to the urgent need for the pumps.	A formal investigation should be conducted regarding this purchase and the members of the Technical Evaluation Committee who did not prepare the required specifications and evaluated them should be held accountable for this and appropriate steps should be taken and action should be taken against officers who acted without due professional care and steps should be taken to recover the loss from the responsible party.

	electric motors supplied were previously used and in a condition that was unsuitable for reuse, and that previously used water pumps had been repainted and given to the institution.		
(b)	The company had purchased 500,000 packs of 1 kg salt cubes to use for over a 6-month period from April to September of the year under review at a cost of Rs.3,103,400. Although the procurement division should decide the items and their quantities to be procured based on the packaging material requirement, the Technical Evaluation Committee had, on the contrary, decided that the quantity of packaging to be purchased should be 500,000. The Technology Evaluation Committee did not take into account the 409,170 packaging units available at the Bundala Lewaya at that time when determining the quantity to be purchased and its Senior Production Manager had also been submitted an indent indicating the requirement for 500,000 units, indicating that the packaging unit balance was at zero level as of 1 April 2024. However, although 1 kg Sanstha salt packets had been purchased for sale during the 6 month period from April to September 2024, It was observed that as of 9 August 2024, the company had 1,068,985 units of 1 kg salt packets worth a total of Rs.7,919,052 lying idle as sales had not taken place as expected.	No answers have been submitted.	A full and transparent investigation into this purchase should be conducted, appropriate legal action should be taken against the officers who did not act with due care, and the company should be recover the losses it suffered from them.
(c)	On 30 June 2022, the warehouse had been received goods worth Rs.5,175,000 in 03 instances in the procurement related to the purchase of 150,000 units of 20 kg printed polythene covers. During the third delivery time, the warehouse received 119,685 units of covers worth Rs 4,129,132, including 44,540 units of outer covers, exceeding the quantity requested by the company. The same stock had been rejected based on quality inspection reports. Although it was decided to take disciplinary action against the officers who accepted the surplus of 44,540 units received without purchase orders that were unsuitable for use, as per Decision No. 472.22 of the Board of Directors meeting held on 27 December 2023, The Chairman had been given	No answers have been submitted.	A full and transparent investigation into this purchase should be conducted, appropriate legal action should be taken against the officers who did not act with due care, and the company should recover the losses it suffered from them.

approval to the Store Keeper on 19 February 2024, to issue GRNs for excess supply without complying with that decision. As of 25 October 2024, when the audit was conducted, the surplus stock had not been used and had remained idle for almost 01 year and 08 months. Also, in June 2022, when the procurement was made, the price of a unit of this stock was Rs.34.50, and later by August 2023, the price of a unit was Rs.19.24, so the company had incurred a loss of Rs.1,826,393 due to the overpayment of Rs.15.26 per unit in purchasing stock in excess of the requirement.

3.4 Contract Administration

Audit Observation	Comments of the Management	Recommendation
Although the estimated civil works value for the construction of the field section coconut frond collection warehouse, whose construction work had commenced in the year 2023, is Rs.1,368,675, it did not include labor costs and the construction was completed in June of the year under review at an expense of Rs.2,475,586. Accordingly, it was observed that the internal control and supervision established for the construction was weak level due to the fact that estimates were not prepared in a formal manner, target dates were not given for the completion of the construction within the stipulated time and the total cost was exceeded by Rs.1,106,911.	No answers have been submitted.	Efforts should be made to ensure that the estimation is done with due professional care, appropriate action should be taken against officers who fail to do so and action should be taken to strengthen the internal control in this regard.