Lanka Mineral Sands Limited - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Lanka Mineral Sands Limited ("Company") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with the 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 the 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 Audit Scope (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- 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 of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard	Comments of Management	Recommendation
(a) Due to non-preparation of the cash flow statement in accordance with Sri Lanka Accounting Standards No. 07, the cash flow generated from operating activities in the cash flow statement calculated by the audit had been Rs.691,547,643 and it had been Rs.347,927,208 in the cash flow statement prepared by the Company. Moreover, the cash flow generated from investing activities in the cash flow statement calculated by the audit had been Rs.724,600,528 and it had been Rs.1,068,220,961 in the cash flow statement prepared by the Company.	Action should be taken to prepare the cash flow statement as per the Standard.	Action should be taken to prepare it as per the Standard.
(b) According to paragraph 51 of Sri Lanka Accounting Standards No. 16 on Property, Plant and Equipment, useful life of the assets must be reviewed at least in every financial year and if expectations differ from previous estimates, those changes should be brought to accounts in accordance with Sri Lanka Accounting Standards No. (LKAS) 08. Nevertheless, the useful life of property, plant and equipment amounting to Rs.486,158,105, which had been fully depreciated and currently in use had not been reviewed and brought to accounts accordingly.	The fixed assets will be evaluated in the near future and action will be taken to update the asset registers and maintenance registers.	Assets should be revalued as per the provisions of the Standard and necessary adjustments should be made in the accounts accordingly.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of Management	Recommendation
(a) An amount of Rs. 2,070,534 had been overpaid as bonus since bonus had not been calculated accurately in the year under review.	The payment made after over calculation will be adjusted to the accounts of the year 2022.	Action should be taken to recover overpayments.
(b) Two (2) wheel loaders worth Rs.67,932,916 had been purchased to the Pulmudai plant on 13 October 2021 and the machines had been used there. It had been recorded in the advance account without capitalizing the machinery even by the end of the year under review. As a result, the depreciation for the year had been understated by Rs.1,698,323 and the assets had also been understated by Rs.67,932,916.	Although these machines were purchased on 13.10.2021 and used, they have not been included under the assets in the year 2021 due to the delay in issuing GRNs. Therefore, the depreciation for the year 2021 has been a lower value amounting to Rs.1,698,323 and the asset registers for the financial year 2022 have been updated.	Arrangements should be made to account purchases timely and properly.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Comments of Management	Recommendation
(a) According to the decisions of the Cabinet of Ministers dated 09 January 2011, the Company had given an amount of Rs. 500 million to the State Resources Management Corporation on 10 January 2012 for paying compensation for the employees of the Ceramics Corporation. Provision for doubtful debt amounting to Rs.155,226,434 had been allocated for this loan in the year under review and the loan and interest amounting to Rs.517,421,448 had not been recovered even by the end of the year under review.	It has been scheduled to take necessary action to write off the amount of Rs. 500 million from the accounts on the instructions of the General Treasury and in terms of the approval of the Board of Directors and accordingly, it has been scheduled to take necessary further action in relation to the case filed in the Colombo Commercial High Court.	Action should be taken as per the instructions of the General Treasury.
(b) The Company had not been able to collect the loans amounting to Rs.25,000,000 and Rs.5,000,000 given to the State Plantations Corporation and the National Paper	It has been agreed to give a portion of land in lieu of the loan amount given to the State Plantations Corporation and it has been scheduled to get a decision after	Action should be taken according to the instructions of the General Treasury.

Corporation respectively, even though the loan amounts had been outstanding for more than 10 years.	holding discussions with the General Treasury through the line Ministry to get the amount from the Paper Corporation.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Sub-section 1.2 of the Public Enterprises Circular No. 1/2020 dated 27 January 2020	Although it has been stated that a chairman of a public institution is entitled to one vehicle and 150 litres of fuel per month, in contrary to this, the chairman has obtained fuel exceeding his fuel allowance entitled to the year 2021 by 8133 litres and its value had been Rs.1,135,748. Although the capacity of the fuel tank of the vehicle assigned to the chairman had been 80 litres, during the audit test checks carried out in relation to the vouchers with fuel bills presented by him, the fuel had been obtained by exceeding 100 litres in many of the bills. Moreover, there had been instances, where fuel had been obtained for other vehicles in addition to the vehicle assigned to him.	Action will be taken to obtain the approval of the Board of Directors for additional fuel in relation to the year 2021. The Board of Directors has approved the use of the jeeps of the Chairman when repairing the vehicle assigned to the Chairman and when maintenance activities are carried out to it and for easy travel when he travels to remote areas and fuel has been provided to those private vehicles as well. Super diesel has been purchased even for cans in addition to the capacity of the tank when the vehicle was running at night, and as there were no super-diesel filling stations in remote areas like Pulmudai.	Action should not be taken by superseding the Circular instructions and in contrary to such instructions.

(b) Letter of the Secretary to the Treasury bearing No. PE/PDCD/14/02 dated 30 March 2004.	The attendance allowance had been approved as Rs. 500 by this letter and the Company had increased it up to Rs. 3,000 by the year under review on the decisions of the Board of Directors taken from time to time in contrary to that. The attendance allowance of Rs.3,769,600 had been paid for head office and Rs.17,429,792 had been paid for Pulmudai plant during the year under review on the decisions of the Board of Directors without getting the approval of the Secretary to the Treasury.	The Line Ministry has recommended the revision of the attendance allowance as Rs. 2,000 and food allowance as Rs. 150 in the year 2011 and sent it to the Department of Management Services. Action has been taken as per the said recommendation. The allowances have been increased up to Rs. 3,000 and Rs. 200 respectively and they have been paid on the approval of the Board of Directors in the year 2020. This will be referred to the Department of Management Services to obtain the approval for this allowance.	The approval of the Secretary to the Treasury should be obtained.
(c) Letter of the Secretary to the Treasury bearing No. CE/PDCB/14/02 dated 30 March 2004	The food allowance amounting to Rs. 35 per day had been approved by this letter and the Company had increased it from time to time on the decisions of the Board of Directors without getting the approval of the Secretary to the Treasury and it had been Rs. 200 per day by the year under review. The food allowance amounting to Rs. 2,738,800 had been paid to the head office and Rs.26,773,600 had been paid to the Pulmudai plant during the year under review on the decisions of the Board of Directors without getting the proper approval.		The approval of the Secretary to the Treasury must be obtained.

(d) Section 4 of Chapter XXI of the Establishments Code	Although the nature, quantity and the period for issuing the uniforms and protective clothing to the officers in other grades shall be decided in consultation with the Director General of Establishments, notwithstanding the said provisions, the Company had provided uniforms to officers in other grades (except labourers, drivers, K.K.S., security personnel, machine operators and cleaners) every year (from about the year 2010) on the approval of the Board of Directors. The Company had incurred expenditure of Rs.12,649,118 for all the uniforms for the year 2021.	A Board decision has been received to provide uniforms to the entire staff after making requests to provide uniforms to the rest of the staff. The amount of Rs. 12.5 million spent in the year 2021 has not been an unnecessary expenditure, but it has been appropriate for the functioning of the organization and for the motivation of the employees.	Action should be taken in accordance with the provisions of the Establishments Code.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a profit amounting to Rs.1,386,986,319 and the corresponding loss of the previous year was Rs.50,797,328. Accordingly, an improvement of Rs. 1,437,783,647 was observed in the financial result. This improvement was mainly due to selling and accounting of the stock of the Ilmenite tender, related to the year 2020, during the year under review.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) The Company had lost an interest income amounting to Rs.1,475,582 receivable to the Company as 4 fixed deposits worth Rs.403,419,895 had been encashed before the maturity during the year under review. Moreover, the Company had fixed deposits worth Rs.2,293,478,814 as at 01 January 2021 and the worth of fixed deposits had become Rs. 1,500,001,000 by 31 December 2021 and had become Rs. 1,300,001,000 by June 2022. An amount of Rs. 500,000,000, out of the amount, had been kept as a guarantee for imports.	Since tenders had not been carried out from January to November, fixed deposits had to be used to cover day-to-day expenses.	Action should be taken to derive maximum benefits to the Company.

(b) A Senior Director (Geologist) of the Geological Survey and Mines Bureau had been appointed with effect from 12 November 2020 for acting until a permanent officer is recruited for the vacant post of General Manager of the Company. Although the Chairman of the Geological Survey and Mines Bureau had approved to release this officer from duty for 3 days a week, a sum of Rs.414,760 had been reimbursed as per the request of the Geological Survey and Mines Bureau for the days of performing duties in the acting position of General Manager from November 2020 to May 2021. The Company had paid Rs. 560,032 to the General Manager for acting in the post during this period. Accordingly, the General Manager had been paid a double amount for the same period for acting in the post.	According to the rules and regulations of the Geological Survey and Mines Bureau, if any officer is released for duty in another institution, he should reimburse the amount paid proportionately in relation to the period of his service in that institution. Accordingly, requests have been made from our institution to give them the amount to be reimbursed. The approval of the Board of Directors has been granted in relation to the reimbursement of this amount. In addition to this, a monthly allowance of 25% out of the basic salary has been paid from our company to the General Manager for acting in the post of General Manager.	A double payment should not be made for the same matter in the same period.
(c) The expenses amounting to Rs.2,671,088, which had been accounted under work in progress had been brought forward even prior to the year 2014 and it was revealed at the discussion held with the Management that the projects related to those expenses would not be implemented. However, these expenses, which had been idle, had been carried forward in the work in progress account until the end of the year under review.	According to various decisions taken by the Management at that period, those projects had been stopped midway. Further action will be taken after submitting to obtain the instructions and approval of the Board of Directors.	The attention of the management should be focused to avoid the expenses become idle.

3.2 Management Inefficiencies

Audit Observation	**Comments of Management**	**Recommendation**
(a) The estimated sales volume of Ilmenite in the year under review was 50,000 MT and the actual sales volume as per final accounts was 79,947 MT. However, it had been the sales related to the sales tender of 85,000 MT dated 28 October 2020, and ilmenite sales related to the year 2021 had not taken place. According to the Condition 5 of the	Ilmenite tender of 85,000 MT was awarded on 28 October 2020, and the top management of the Company has extended the time for payment of the tender amount and the removal of the stock. An amount of Rs. 1,107,992 was charged as late	Action should be taken to achieve the desired goals through the sales process according to a plan within the existing authority.

agreement entered in to with the bidder on 09 November 2020, the stock should have been released in 4 parts within 130 days. However, a delay of about 150 days had occurred as the date of releasing the stock had been 15 August 2021. Although the second and third cash payments and removal of stocks had been delayed in the tender amounting to USD 12,495,000, Rs. 1,107,992 had only been charged from the buyer as late fees for the fourth cash payment and stock removal.	fees for removing those stocks, which could not be removed within the stipulated time.	
b) A land in extent of 17.69 ha had been purchased for an amount of Rs.2.25 million from Kokkilai area rich in mineral sands on 13.02.2013 and it had been planned to construct a plant in this area. Before transferring the land properly and constructing a new plant therein, assets worth Rs.39,339,473 had been purchased for the plant in August 2013 and all those assets had been installed in other places of the plant in Pulmudai and remained idle. Some machines had been stored idly in the stores. Twenty four (24) spirals purchased for the Kokkilai project and installed in the old Block A plant had been dismantled and left unprotected in the open air and the related spiral machines had not been used since August 2013, the period of purchasing the spiral machines. Notwithstanding the difficulty in obtaining licences for this project and even before the commencement of the project, 117 workers had been recruited on 25 June 2015 and attached to various locations in the plant. The purpose of constructing the new plant at Kokkilai was to obtain mineral sands, increase its production and providing value addition to the product, and a sum of Rs.1000 million had been allocated in the action plan for its construction. However, the project proposal (Project Report) had not been prepared and completed and submitted for Cabinet approval even by the end of July 2022. In the physical inspection carried out in Kokkilai area on 01 January 2022, soil filling was being carried out and expenditure	A mining licence was obtained for mining mineral sands in 2020 after receiving the Cabinet approval in 2019 to set up the Kokkilai new mineral sand plant. Although the task of preparing the project proposal was handed over in the year 2022, the report has not been received during the relevant period. Since a portion of the land allotted for the proposed plant gets flooded during the rainy season, the soil filling in the land proposed to store the mined mineral sands was done even before the preparation of the project proposal. The area, to which the land belonged should have been filled with soil and the transformer building should have been constructed prior to installing the transformer. The 117 employees recruited in the year 2015, prior to the commencement of the new Kokkilai project, have now acquired professional skills by working in various divisions of the plant, and after the commencement of the	The Kokkilai project should be commenced immediately and action should be taken to commence the project by using the machinery in the production process.

of Rs.17,767,504 had been incurred for the project by 31 December 2021 according to the financial statements although the project proposal had not been prepared.	Kokkilai plant, it will be possible to employ a group of workers with skills in the relevant fields.	
(c) A land belonging to the Urban Development Authority had been acquired in the year 2013 for the construction of the Head Office of Lanka Mineral Sands Limited by paying a sum of Rs.24,220,118 for the lease of 30 years. The contract had been awarded in February 2018 for a sum of Rs.171,453,486 to construct this 06 storied building with an area of 15,325 sq. ft. and the contract value had been revised again as Rs.175,224,359 (excluding VAT) on 02 June 2021. Although a formal contract agreement should be prepared and signed immediately after accepting the bid submitted by a bidder in terms of Section 8.6 of the Procurement Guidelines 2006, the agreement had been signed with the contractor on 26 February 2020, which had been 02 years after the award of the contract. Even though 09 years had passed, out of the lease period of 30 years, by the end of June 2022, tiles had not been laid and any of the interior design work had not been carried out.	Although the contract was awarded to construct the new building on 27 February 2018, the construction work was temporarily stopped since there had been no unanimous decision to construct the building due to the change in the Management from time to time. Even though the proposed date of completion of work, which had been on 13 July 2022, had passed, a delay has occurred as hardships experienced by people had increased owing to the existing fuel crisis, shortages in raw materials required for completion, etc.	The construction of the head office building should be expedited.

3.3 Operating Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(i.)	The production of Ilmenite, Hi-Ti Ilmenite, Rutile and Zircon estimated for the year under review was 50,000 MT, 6,020 MT, 4,800 MT , and 1,800 MT respectively. However, the actual production was 44,700 MT, 4,368 MT, 1,880 MT, and 400 MT respectively. As such, the Company could not fulfil the expected production. As the stock of 85,000 MT of Ilmenite given through tenders in October 2020 had not been properly removed by the buyer, and the stores had exceeded the capacity, the production process of the “Block Billion” plant had been stopped. Hence,	The Company could not reach the expected targets of production in the year under review due to reasons such as, prevalence of Covid-19 outbreak in the country, and production process of the “Block B" plant had been stopped owing to lack of space in the stores due to 85,000 MT of Ilmenite not removed by the buyer despite being sold in the year 2020 thereby failing to receive demagnetized sand used to produce Hi Titanium, Rutile and Zircorn.	Action should be taken with the sales process to achieve the expected targets within the authority in accordance with a plan.

	all the resources including human resources had become idle.		
(ii.)	No revenue had been received in the year under review with respect to Low Grade Zircon Crude, Final Talien, and Hydro Sized Fines. Actual revenue from Rutile and Zircon had decreased by 85 per cent and 75 per cent respectively of the estimated revenue. An amount of 4,368 MT of Hi-Ti Ilmenite was produced, and the opening balance was 3,210.51 MT. As no sale on Hi-Ti Ilmenite took place in this year, the stores remained filled, and the mineral remained dumped outside without protection. Furthermore, a tender procedure had not been made during January – October of the year under review for sale of the products related to mineral sands. A quotation had been presented for the Tender No. LMS/MKT/TDR/21/01 after a lapse of 09 months of the year on 21 October 2021. The Company failed to obtain the total amount required for sales as expected in that connection as well.	As the top level management of the Company had decided that the raw products be further pre-processed by separating mineral sands before making the relevant products, such products were not put on sale in the year 2021. Directives were issued by the Cabinet that a proper sales mechanism should be made and products should be sold accordingly. Action was taken to sell a considerable amount of main products through the Tender No. LMS/MKT/TDR/21/01 under the pilot project, and having reviewed the progress thereof, and by further improving the sales mechanism, approval of the Cabinet was given on 20 June 2022 for the pilot project.	Procurement Guidelines should be followed through the pilot project, thus taking action to ensure higher prices and sales through maximum competition.
(iii.)	The advances of Rs. 2,924,232 and Rs. 1,083,100 given to the suppliers in the years 2020 and 2021 by the Head Office and the Plant in Pulmudai respectively, had not been settled even by 31 May 2022.	Action has been taken to prepare a successful mechanism to sell the products.	Action should be taken to settle the advances expeditiously.

3.4 Transactions of Contentious Nature

	Audit Observation	Comment of the Management	Recommendation
a)	Having spent a sum of Rs. 4,172,595, transport facilities had been provided for employees of the Head Office using 05 vehicles obtained on lease for the first 04 months period of the year 2021 due to prevalence of Covid-19 virus. A transport allowance totalling Rs. 2,626,500 had been given to the employees for the said months. Transport facilities had been provided for employees of the plant in Pulmudai using the vehicle of the institution and a sum of Rs. 15,379,520 had been paid as transport allowance as well. As such, payments had been made in duplicated for the same task.	As common transport services had been crippled and restrictions had been imposed on inter-provincial travel due to prevalence of Covid-19, action had been taken as per approval of the Board of Directors to summon the entire staff for duty by providing transport using vehicles obtained on rent. The institution took action to reduce 30 per cent of the transport allowance paid to the employees who had been provided with transport facilities for reporting to duty.	No payments should be made in duplicate for the same activity. Action should be taken for the recovery of payments made in duplicate.
b)	The present Chairman of the Lanka Mineral Sands Limited functions as the Director of the institution from which vehicles had been obtained lease during the Covid-19 era. Although a procurement process had been followed in obtaining vehicles, transparency had not been ensured when selecting a bidder and making payments of Rs. 4,172,595 in that connection by the Company.	Of the bids approved by the Board of Directors of the Company , vehicles had been obtained from the institution named "A.V.M. Amarasinghe" The latter had obtained vehicles from an institution named "D.S. Gunasekara". Transporting employees of the Company using vehicles obtained from the institution, "D.S. Gunasekara" was beyond scope of our Company.	Transactions paving way for conflicts of interest should not be performed.
c)	Two drivers, one on contract basis since 03 February 2020 and the other one since 15 November 2021, had been attached to the vehicle allocated for duties of the Chairman. Both drivers had obtained overtime payments for the same time, and in many instances overtime payments had been obtained for travelling to the plant in Pulmudai after the midnight. Nevertheless, no evidence	The Chairman keeps travelling day and night in rural areas from Colombo. When one driver is on leave or exceeding the overtime hours allowed, service of two drivers had been obtained. The Chairman certifies the times of arrival and departure of the drivers, and overtime is paid. When the Chairman visits or leaves the plant, it is not often	Undue recruitments should not be made. Unnecessary payments should not be made.

	was found in examining reports on the arrival and departure of vehicles at the plant in Pulmudai that the Chairman had visited the plant on the relevant days. The two drivers had not recorded their arrival and departure using the finger scanner, but their arrival and departure reports had been approved by the Chairman. Sums totalling Rs. 1,250,986 and Rs. 7,726,712 had been paid as salaries, allowances, and overtime to the said driver on contract basis and the other one respectively in the year under review.	recorded at the main entrance but in the log book of the official quarter. Furthermore, he also visits the sites in Kokilai, Yanoya, and Cod-Bay and attends meetings of IEA and EIA around Trincomalee, thereafter leaving for Colombo without visiting the plant in Pulmudai.	
d)	A Chairman of a public enterprise is not entitled to officers being attached in a manner personal to him. However, 02 employees of the Company had been attached to him as personal bodyguards. The said two employees do not record their arrival and departure using the finger scanner of the Company, but the records of their arrival and departure had been approved by the Chairman. The Company had spent a sum of Rs. 1,766,704 on salaries, allowances, and overtime of those employees during the year under review.	Following request of the Chairman, action had been taken to attach a security officer of the security division of the Head Office as his personal bodyguard whilst a security officer of the plant had been attached relating to his duties. However, it is informed that the said 02 security officers have been attached to the Head Office and plant in Pulmudai.	Undue recruitments should not be made. Unnecessary payments should not be made.
e)	The then Acting General Manager of the Company had been reappointed to that post for a period of one year on contract basis with effect from 28 September 2021 in terms of a Cabinet Decision. It was stated that a monthly allowance equivalent to the initial salary of the relevant salary scale along with other perks and benefits should be provided for him. The General Manager had also been provided with a driver and a vehicle with fuel to travel between home and Head Office, and visit the plant in	In addition to the affairs of the plant in Pulmudai, inspections are carried out on almost every weekend at the sand mining areas, exploration areas around Pulmudai and the newly allocated areas of exploration by the General Manager. As he does not receive an allowance approved for visiting Pulmudai on weekends, approval had been given by the Board of Directors to pay a special allowance for a maximum of 10 days per month for visits made to Pulmudai considering his expertise	Action should not be taken by violating the Cabinet Decisions.

Pulmudai for official purposes. Irrespective of that, approval had been given by the Board of Directors to make a payment of Rs. 12,000 per day for 10 days a month to visit the plant in Pulmuadi on official purposes. As the appointment had been made by the Cabinet, no payments should be made based on decisions of the Board of Directors by disregarding the payments that the post was entitled to. Nevertheless, a sum of Rs. 444,000 had been paid to the General Manager at Rs. 12,000 per visit made to and from the plant in Pulmudai during October 2021 and February 2022. Although it was not recorded at the gates that visits had been made to the plant during the two months of November and December 2021, payments had been made for 11 days.	gained over 36 years and additional services provided by him. Nevertheless, he refused the receipt of this allowance since April 2022 (including April) in accordance with the Circular issued by the Treasury in April 2022.	

3.5 Idle or Underutilized Property, Plant and Equipment

	Audit Observation	Comment of the Management	Recommendation
a)	Having been considered as being urgent and essential in enhancing the production process of the Company, a new Hydroziser machine had been purchased in January 2016 at a sum of Rs. 15,426,302 to be used in wet sand plant. Even after a lapse of 05 years since the purchase, the Company had not taken action even up to the end of August 2022 to make use of the machine in production process. Accordingly, it was obvious that the machine had not been purchased on an urgent requirement, but the Company had not taken action against the officers responsible for making the purchase.	Although the Hydroziser machine had been used in the production process after being commissioned in the year 2021, the electronic circuit thereof had been damaged after several days due a sudden electricity breakdown. As we have received quotations on the spare parts required in that connection, approval has been sought after being recommended by the Technical Evaluation Committee. However, due to issues related to foreign exchange in the country, a delay has occurred in importing the parts into Sri Lanka. It is expected to restore the machine and use in the production process as soon as the spare parts receipt.	Measures should be taken to use the machine in the production process, and action should be taken against the officers responsible therefor.

b)	A drier machine valued at Rs. 62,370,234 had been imported on 30 June 2016 in view of saving fuel expenses by 50 per cent, and a sum totalling Rs. 43,838,767 including penalties for delay amounting to Rs. 1,164,350, had been paid thereon, but that sum had been shown under advances in the annual financial statements since then up to 31 December 2021. Even after a lapse of 06 years since the purchase, the Company could not make the machine functional and use in the production process up to the date of this report. The Company had not taken action against the officers responsible therefor after being identified.	The machine was made functional by March 2022 after resetting its password. With the existing issues on fuel become solved, action would be taken to restore the machine.	Action should be taken to use the machine in the production process, and action should be taken against the officers responsible therefor.
c)	A stock of nylon ropes and a large stock of polysack jumbo bags that could be used to pack 01 ton of Rutile purchased to be used for Cod-Bay plant long ago, had been retained at the plant in Pulmudai due to non-utilization. Those polysack bags remained at the stores over a period of 11-16 years, and become unusable by the year under review. Although annual surveys had been conducted, the Company had not taken action either to remove the bags or any take any other measure thereon. The space of the stores had also become limited.	As the bags cannot be made use of, it is noted to remove them at the next survey on stocks. The nylon ropes valued at Rs. 256,764, have been retained in order to be used in the installation of plant at Kokilai and operational activities of heavy machinery.	Action should be taken expeditiously for disposal.
d)	Items such as, scrap metal, excavators, trailers, lorries, vehicle engines, spirals, tractors, vans, 05 JCBs, and other machine parts, had been scattered at the premises of the plant over years without any protection. However, the Company had not taken any action to dispose them.	As soon as the report of assessment is received on scrap metal, vehicles, and other parts of machines, action will be taken for the disposal through the tender procedure of the Government.	Action should be taken expeditiously for disposal.

e)	Action had not been taken to repair and use 04 vehicles that had been sent to the garage of the plant for repairs after being withdrawn from use 04 years ago.	Repairs are being carried out.	Repairs should be done without delay.
f)	Despite being mentioned that action be taken for disposal of 06 vehicles not in use for 05-11 years belonging to the plant in Pulmudai, the Company had not done so thus far.	Quotations were called for selling those vehicles. Those who presented tenders have not purchased the vehicles.	Action should be taken in terms of Circulars for disposal.

3.6 Procurement Management

	Audit Observation	Comment of the Management	Recommendation
a)	As the shipyard in Cod-Bay had become unusable following the destruction of shipyard in Pulmudai caused by Tsunami in the year 2004, the tug boats and barges therein had fallen into a state of disuse. Those assets have been decaying for a period of 16 years, but tender procedure had not been followed to dispose them in the year 2021. Although tenders had been awarded for disposal after the tug boats anchored in the Cod-Bay jetty had been assessed by the Department of Valuation in the year 2022, the process had not come to conclusion. Four security officers had been deployed for the safety thereof, and a sum of Rs. 3,798,988 had been spent as expenses relating to those officers in the year 2021.	At present, one barge has been totally cut up and removed. Responding to a request made by the buyers of other barges and tug boats seeking an extension for the period of removal considering the scarcity of LP Gas and diesel in the country, the Board of Directors had given an extension until 2022.09.02.	Measures should be taken for the prompt removal.
b)	The ship, M.V. Cordiality loaded with 27,235 MT of Ilmenite had sunk due to a terrorist attack on 09 September 1997. The ship weighed 7,763 MT and according to the reports of the institution, 3,120 MT of metal have so far been removed by Asha Lanka Company. Seventeen years have elapsed since 2005 up to this year. Following the agreement entered into on 2021.08.27 between the two parties, 14,202 MT of sand had been	The stock of Ilmenite is owned by the Asha Lanka Company, and a large amount thereof has already been removed. The long-standing failure of the Asha Lanka Company in removing this ship is one of the reasons that prevent the resumption of exporting	Removal of the ships should be expedited.

removed out of the sand dumped at the premises of the Company over 08 years, and the rest of the ship should have been removed by Asha Lanka Company before 2022.10.30. Due to failure of the latter in removing the ship as per the agreement, an environmental pollution as well as a financial loss had occurred due to activities of the open harbor of Pulmudai being hampered.	products relating to mineral sands via the open harbour in Pulmudai. Even if the ship was removed, products relating to mineral sands cannot be exported right after as the Pulmudai jetty had complexly been destroyed by the Tsunami.	

3.7 Human Resource Management

	Audit Observation	Comment of the Management	Recommendation
a)	Without taking action to make a permanent appointment to the post of General Manager remaining vacant since 2015, in order to implement the policies and decisions relating to production, administration, accounting, and other affairs of the Company, officers had been recruited on contract or secondment basis.	Action is being taken to make a recruitment to the post of General Manager, and newspaper advertisements were published on 2022. 08.07 calling applications for the post.	Officers should be appointed without delay for the pivotal posts.
b)	The posts in the senior management level of the Company such as, Chief Chemist, and Medical Officer, remained vacant for 11 and 06 years respectively whilst the posts of Senior General Manager (Financial), and Senior General Manager (Human Resources) had fallen vacant since April 2019. However, action had not been taken to make appointments on permanent basis to those posts.	It is expected to make permanent appointments once the relevant approvals have been received.	Officers should be appointed for the key posts without delay.
c)	An officer had been appointed by the Chairman on contract basis to the post of Geologist which had not been in the approved cadre, for a period of 06 months from 01 January to 30 June 2021 at a monthly allowance of Rs. 92,475. A sum totalling Rs. 1,008,604 including holiday pay amounting to Rs. 94,375, had been paid to him from January to November 2021.	The said appointment had been made on approval of the Board of Directors. The Line Ministry had been requested from time to time to obtain approval of the Department of Management Services for making 02 posts of Geologist as per service requirements.	Action should not be taken by deviating from the Scheme of Recruitment and promotion.

d)	The Chairman of a public enterprise is not entitled to a Legal Consultant on personal to holder basis. However, a Legal Consultant had been appointed on approval of the Board of Directors despite the existing Legal Officer of the Company, and she had been paid a total of Rs. 750,000 at Rs. 75,000 per month from December 2020 to October 2021. Furthermore, the Legal Consultant had not recorded her arrival and departure times on the finger scanner, and evidence as to whether she had reported for duty, was not revealed to the Audit as well.	Responding to an application furnished following a request made by the Minister to the Chairman, the appointment of Legal Consultant to the Chairman had been made on 2021.01.01 upon approval of the Board of Directors. Action had been taken to inform the Ministry of Industries through the letter dated 01.07.2021 seeking approval on the said appointment effective from 2021.01.01. The contract period of the Legal Consultant had been terminated on 30.09.21210.	Undue appointments should not be made.
e)	A person who had been dismissed from service of the Company on 15 September 2017 after being convicted of 11 charges in a disciplinary inquiry while officiating in the post of Administrative Officer since 02 December 1997, had been appointed on acting basis to the post of Deputy General Manager (Human Resources) at a monthly allowance of Rs. 120,000 with effect from 01 April 2020 rather than being appointed to a permeant post. Thereafter, on a decision taken by the Board of Directors, he had been appointed to act in the post of Deputy General Manager (HM1-3) of the plant in Pulmudai from 12 October 2020. Allowances totalling Rs. 3,081,930 had been paid by the Company for him relating to the period from April 2020 to March 2022. The Company as well as the Ministry had not shown interest to take corrective measures on this undue appointment and recover the sum from the officers responsible therefor. Moreover, the said officer had been made permanent in the post of Deputy General Manager (Human Resources and Administration) by the Chairman with effect from 25 April 2022 without being approved by the Board of Directors.	The appointment had been made to the post of Acting General Manager (Administration and Human Resources) from 2020.04.01 to 2020.08.30 following a decision taken by the Board of Governance. However, that appointment had been revoked with effect from 2020.08.30 as approval of the Board of Directors had not been received. As per a decision taken by the Board of Directors later responding to a request made by that officer seeking reinstatement, he had been reinstated in the post of Acting General Manager (Administration and Human Resources) on 2020.10.12. Heeding to a request seeking permanence in the post, his service had been made permanent with effect from 2022.04.25. However, this officer has been dismissed as he was in dispute with another officer and protest campaigns were conducted by the employees of the plant.	Corrective measures should be taken on the undue appointment.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
The Action Plan of the year under review included 26 activities. It was revealed in examining the progress thereof that the Company had failed in executing 09 of those activities. However, sums of Rs. 7,686,638 and Rs. 1,871,862 had been incurred on the activities not included therein such as, repairing a building in Yan Oya to be used as Chairman's bungalow and repairing 12 staff quarters in Pulmudai respectively.	Approval of the Board of Directors had been obtained on the said provision, and action had been taken to repair the old and dilapidated quarters with a view to facilitating the employees' families and the officers of the institutions providing services for the Company, on fee-levying basis. The 12 quarters had been repaired by the civil engineering division of the Company as a routine repair.	Targets should be achieved in accordance with the Action Plan of the year. The additional activities to be done in the year, should be included in the revised plan.

4.2 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
The budgeted revenue and other operating revenue amounted to Rs. 3,848,879,000 and Rs.24,000,000 respectively in the year under review. However, the actuals amounted to Rs. 2,720,198,304 and Rs. 1,107,992 respectively. As such, the Company could earn only 70 per cent of revenue budgeted for the year under review. The budgeted expenditure of the Company amounted to Rs. 763,855,000 whereas the actual expenditure amounted to Rs. 840,332,629, indicative of 10 per cent increase of the budgeted expenditure equivalent to Rs. 76,477,629.	The targets expected for the sale of Rutile, Zircon, and Hi-Ti Ilmenite could not be met. Production process of the plant could not be maintained at optimal level throughout the year due to Corona pandemic. Action will be taken in due course to determine the revenue and expenditure in accordance with the final accounts and budget.	Affairs of the Company should be maintained within the limits of budgeted revenue and expenditure.