Lanka Mineral Sands Limited - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Lanka Mineral Sands Limited ("Company") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 . My comments and observations which I consider should be 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 2022 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 the Qualified Opinion

My opinion is qualified based 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 of the Company 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 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 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 has performed according to its powers, functions and duties,
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with the Sri Lanka Accounting Standards

	Audit Observation	Comments of the Management	Recommendation
(a)	In terms of the paragraph 51 of the Sri Lanka Accounting Standards 16, the expected life time of the assets should be reviewed at least in every financial year and if the expectations differ from the previous estimates, such differences should be accounted for in accordance with Sri Lanka Accounting Standards 8, Actions had not been taken relating the fully depreciated but still in use non current assets items 3,135 cost of Rs.508,756,403 accordingly.	Although arrangements have been made to carry out the revaluation of the assets that have been fully depreciated but are still in use ,this could not be done due to Covid 19 pandamic.	Actions should be taken to present the fair value of the fully depreciated assets in the accounts.
(b)	Various citizens and customers aggrieved by the company's activities have filed 23 cases in courts against the company and the legal officer confirmed to audit that out of which Rs.687,000,000 in 03 cases and US dollars 2,269,119 in another case could result in contingent liability.Further the company was filed 02 cases to recover the debts which was not paid to the company against the institutions of State Resources Management Corporation and Sri Lanka Plantation Corporation claiming Rs.650 million and Rs.35 million respectively.Information relevant to the above cases was not disclosed in the financial statements in terms of the paragraph 86 and 89 of the Sri Lanka Accounting Standards 37.	Cases imposed are not disclosed in the financial statements in accordance with Sri Lanka Accounting Standard 37.The cases imposed against the State Resources Management Corporation and the Plantation Corporation were not disclosed in the financial statements.	Information related to the contingent assets and liabilities should be disclosed in accordance with the accounting standards.

1.5.2 Accounting Deficiences

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to mining sand beyond the amount of sand cubes prescribed by the Department of Costal and Costal Resources Management for mining mineral sand through 5 licences issued to the company for the period from the year 2017 to 06 September 2021, the fees of Rs.74,583,515 to be paid to that Depatrment were not disclosed in the financial statements as liability .	In this regard a committee was appointed in the month of April in this year by the Secretary to the Ministry of Industries. Accordingly, actions being taken to resolve the issue and it is informed that arrangements have been made to account for the payables by the end of the year.	Fees payables should be disclosed in the financial statements.
(b)	Expenses amounted to Rs.4,292,294 incurred in the year under review for operating activities was accounted as deposits instead of accounting as expenses and therefore profit and the current assets were over stated from that amount.	Out of the Rs.9,981,272 included in the advance account, amounted to Rs. 3,516,777 was settled in the year 2023 and these are considered as expenses of year 2023.That is, the expenses related to loader repairs and employee uniforms.	The observation mentions not the expenses related to the year 2023 but the expenses related to the year 2022, so the accounting error occured must be corrected.
(c)	The unabsorbed manufacturing overhead cost of Rs.18,115,382 related to the previous year was absorbed considering as a production cost of the reviewed year and amounted to Rs,2,434,793 out of the manufacturing overhead of the reviewed year without absorbing was shown under other debtors. As a result,the profit was understated by Rs.15,680,589 in the year under review .	In late 2021,bags for Rutile, Zircon, and Magnatite were purchased and the related portion for sales in 2022 was removed from the year 2021 and shown as expenses in year 2022. Further, Rs.2,434,793 related to the remaining quantity of bags is shown under other debtors as unabsorbed overhead in the accounts of year 2022.	Production overhead related to the period should be identified and accurately absorbed and the relevant purchases should be adjusted as stocks.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	The value added tax of Rs.132,923,512 due from the year 2006 to the end of the review year included in the other current assets had not been settled.	Actions being taken to recover the value added tax of Rs.132,923,512 due from year 2006 to end of 2022 from the Department of Inland Revanue.	Actions should be taken to settle the tax receivables.
(b)	During the period of 2019-2021 purchase advance of Rs.2,172,200 were paid to 28 suppliers and actions had not been taken to settle that advances by completing the procurements.	Out of the balance of Rs.9,981,272 included in the advance account, Rs.3,516,777 have been settle in 2023 and are considered as 2023 expenses.	Actions should be made to settle the relevant purchase advances immediatetly. Efforts should be made to streamline the procurement process.

1.7 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Reference to the Laws, Rules and Regulations etc	Non-Compliance	Comments of the Management	Recommendation
Paragraph 3.5 of the Operational Manual introduced from the Public Enterprises Circular No.01/2021 Dated 16 November 2021.	Two employees of the company was released to the Ministry of Industries from 17 October 2022 and 29 November without the approval of the Ministers of the Cabinet and amounted to Rs.439,142 were paid by the company as salaries, over time, other allowances and incentives for them.	As they have been released to the line ministry, all the salaries,over time and other allowances paid to other employees have been paid.	In terms of the circulars, employees of the company cannot be released to other institutions and therefore that employees should be called back to the company. Salaries and allowances paid should be reimbursed from the ministry.

2. Financial Review

2.1 Financial Results

The operating results of the year under review amounted to a profit of Rs.4,931,085,870 and the corresponding profit in the preceding year amounted to Rs.1,204,998,407. Therefore, an improvement amounting to Rs.3,726,087,463 of the financial result was observed. Cost of sales, Adminstration cost, Other operating cost and Income tax expenses increased by Rs.98,782,091, Rs.52,165,517, Rs.539,105,920 and Rs.1,047,351,255 respectively, The income and finance income increased by Rs.4,842,627,690 and Rs.399,009,881 respectively are main reasons for this improvement.

3. Operational Review

3.1 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Without selecting a contractor preparing cost estimate and without following procurement procedure interms of the procurement guide lines, renovation works of the chairman's bunglow at Pulmude plant premises was carried out by a private contractor incurring Rs.31,598,049 from 03 February 2021 to 31 December 2022.	Since it spends a lot of money to construct a new building, the services of contractors on the method of labour contract were obtained on the basis of providing raw materials from the institution. Repairs have been carried out in a systematic manner and there are some short comings in the procurement process. Such a situation will not occur in the future.	Procurement activities should be carried out preparing a cost estimate in accordance with the procurement guidelines, following a formal procurement procedure and selecting a contractor. Disciplinary action should be taken against the parties responsible for not doing so.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Three Tug boats and 06 boat carriers worth Rs.9,831,234 at the destroyed Codbay dockyard had been idle for nearly 26 years and actions had not been taken to disposed .A security cost of Rs.2,597,326 incurred in the year under review for these security.	Tenders were called for the sale of Tug boats and boat carriers, the process of removing Tugs and boat carriers have been initiates.	Disposal activities of the boats should be complete immediately.
(b)	A Dryer machine worth Rs.42,370,234 imported on 30 June 2016 paying Rs.43,838,767 including Rs.1,164,350 delay charges with the objective of saving the fuel by 50 percent, Due to not completing the activities in the Pulmude plant to fix and operate the machine, that machine was not used upto 31 May 2023.	Service providers do not take any responsibility, so on the approval of the board of directors have been entrusted to carry out the work at a cost of Rs.2,185,000 and they have already started this work.	Should be entered formal agreements with the suppliers in procurement activities and necessary steps should be taken to use the machine immediately.
(c)	Four wheel loaders worth Rs.53,695,105 a lorry worth 800,000 were kept idle for 5 years in the Pulmude plant premises.Out of 2 wheel loaders worth	Wheel loaders were maintained several times ,but within a short period of time they again caused	Machines which should be repaired immediately should repaired and to be used. Actions should be

	36,959,917 were in a position to be repaired immediately.	defects. As a result, temporarily removed from operations.Discussions have been initiated by the top management about the future course of action regarding the machine. The lorry was removed from operations as it was not in good condition to drive.	made to used or dispose other idle machines and lorry.
(d)	According to the decision of the Cabinet of Ministers dated 19 September 2011 No.අමප/11/2068/553/018-1 the Company was granted amount of Rs.500 million to the State Resources Management Corporation to implement a compensation of retairement scheme for the employees of the Lanka Ceramic Corporation on 10 January 2012. By the end of the review year the interest and the loan amount was Rs.517,421,448. The company filed a case in the commercial court to recover the loan and a provision of doubtful debtors of Rs.155,226,434 was provided and the due amount of Rs.362,195,014 was written off on the approval of the board of directors.	Since this amount has been given to an entity owned by the Treasury, It have been decided to deduct this amount from the accounts as it is a futile attempt to take legal action against two government agancies .It is not appropriate to falsely declare good standing in the statement of accounts.Therefore,if the amounted of Rs.500 million and the interest amount are received as assets in the future,it will be shown in the statements of accouts as contingencies.	The Board of Directors should responsible for the loss caused to the company due to the decision to write off the loan amount while the company filed a case in the commercial court to recover the loan.
(e)	The letter of Secretary to the treasury No.පීඊ/පීඔපීඔ/14/02 dated 30 March 2004 approved the meal allowance amounted to Rs.35 per day and the attendance allowance amounted to Rs.500 per monthly paid for the employees of the company, but the company had increased the meal allowance to Rs.200 per day and the attendance allowance to Rs.2,000 per month only with the approval of Board of Directors. Accordingly, Rs.6,975,000 and Rs.42,831,450 were paid as attendance allowance and meal allowance in the review year without treasury approval.	In order to encourage employees to come work by limiting their leave, a system of payment of attendance allowance has been introduced and according to that system the allowances was paid since 1980 with the approval of the Board of Directors. With the approval of the secretary to the treasury No.පීඊ/පීඔපීඔ/14/02 dated 30 March 2004 to pay the attendance allowance of Rs.500 has been approved.	It is unable to increase the allowances without obtaining the treasury approval and therefore actions should be taken to obtain the treasury approval.Excess payment should be treated as illegal payments.

3.3 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In accordance with the Cabinet dicision No.අමප/20/0226/224/006/ටිඩීආර් Dated 12 February 2020 the company should have paid attention on sending value added products to abroad without export mineral sand in the form of raw material,but necessary measures were not taken till 31 May 2023 on the date of audit mineral sand in the form of raw material was exported.	On several occasions EOI (call of interest) was made but failed. At present,tenders have been called for the contruction of the Zircon powder machine at Pulmude plant.One price has been received and it has been offered to TEC.According to the TEC report relevant plans will be prepared.	Without exporting the mineral sand in the form of raw material the company should paid attention to send value added products to abroad in terms of the cabinet decision.
(b)	The company was set out targets in order to get maximum economic benefits to the country enter in to raw sand mining, processing, value addition and sale of mineral sands in sustainable manner during the period 2022-2026, Accordingly, the company has been working for several years to build a new machinery plant in Kokilai in Mullaitivu district. The following observations are made in this regard.		
	(i) A land of 17.69 hectares for amounted to Rs.2.25 million was purchased on 13 February 2013.Before planning the machinery plant activities a Spiral machine for Rs.39,339,472 was purchased and that machine was kept idle in the Pulmude machinery plant .	These machines were ordered and brought in with the expectation of obtaining the licence for Kokilai at the earliest. However it took several years to apply for this licence.After obtaining the licence in the year 2021 preliminary excavation was carried out and the sand stocks were stored in the designated land.	The Kokilai project should be started immediately and actions should be taken against the officials responsible for purchasing the machine incurring money without proper planning.
	(ii) Although the work of these machinery plant was not started until the year of review, 117	It was decided to provide specialized training to the employees recruited for the	The project should be started immediately. Maximum services should

	employees were recruited in the year 2015 and Rs.107,100,479 was spent on the salaries of the employees in the year under review.	Kokilai machinery plant was absorbed to the vacant locations of Pulmude machinery plant till the construction of the machinery plant.Subsequantly,due to the retirement of the employees and the dismissal of the employees they had to be absorbed in those places for a long time so their labour was not waste.	be obtained from the employees.
	(iii) The company had obtained licence No P/21/90 from the Department of Coastal Conservation on 12 August 2021 by paying Rs.15,000,000 for mining 30,000 raw sand cubes along the coast line from Kokilai to Kokkuthoduwai and that licence had been canceled on 11 August in the year under review. During that period only 3,520 sand cubes were mined and the quantity of sand was also unutilized and were stored.	Due to the crisis in the country, the company did not have opportunity to mine the quantity mentioned in the permit during the review year.	Efforts should be made to renew the Coastel Conservation licence and carry out the project efficiently by mining at the maximum mining capacity and processed and export the mined sands.
	(iv) As the company had not completing the rehabilitating activities of the mining site from Kokilai to Kokkuthoduwai and renewed the Coastal Conservation licence, the mining licence applied on 01 July 2022 for 1.9621 hectares of land in the area was not granted to the company.	The replies were not received.	Rehabilitation of the mining site should be completed and actions should be taken to renew the Coastel Conservation licence.
(c)	The Following Observations are made in relating to the mining and exploration licences of the company		
	(i) The company has 03 mining licences for a period of 10 years up to the year 2028, out of which mining activities in Poduwakattu area were carried	During the review year raw sand mining activities in the Pulmude area had to be temporarily halted due to the poor economic situation and fuel crisis in the country,This	Poduwakattu and Thevikkallu mining licences should be utilized to the maximum extent and efforts should

	out only during the period from March to June of the year under review and 12,229 metric tons of mineral sand were mined.Minings of the Thevikkallu area were carried out only in January of the review year, out of which 19,433 metricton were mined.Thus, the company's mining activities relied heavily on minings of the Pulmude area.	work is expected to be resume soon.Excavations in the Tevikkallu area had to be temporarily halted after the raw sand was completely removed from the coastal area.	be made for mining.
(ii)	The Geological Survey and Mines Bureau had rejected the applications for 07 new exploration licences applied by the company on the ground that the mining licences of the company were underutilized and the capacity of the existing mining licences was not sufficient for the operations for the next 20 years and did not submit a mining plan for the next 20 years. The company had failed to obtain a mining licence on the basis of exploration licence No.EL/406 obtained for Nayaru Chemmalai area of Kokilai Lagoon as it belongs to the Department of Forest and the exploration licence was cancelled on 31 December 2022.Due to these reasons as of 31 May 2023 the company did not have any mining licences.	The replies were not received.	An excavation plan should be prepared and action should be taken to obtain a exploration licence at the earliest.
(iii)	Thus, There will be a possibility of lagging behind of company's forward operating performance due to the validity period of all the mining licences of the company expires after the year 2028 and the inability of starting the new explorations.	The replies were not received.	Special attention should be paid to the excavation activities in the future and efforts should be made to prepare a systematic program.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Contrary to approved recruitment and promotion procedure of the entity,the Sales manager and the Chemist engaged in two posts under the Middle Management service (MM) category were paid Rs.120,175 each in the Senior Management Service (HM) category and for an officer employed in the post of Administrative Officer of belonging to the Junior Management Service (JM) category were paid Rs..105,760 each in the Senior Management Service (HM) category. Further,two Internal Audit Officer,One Supply officer and an Accounts Officer serving in three posts belonging to the Junior Management Service (JM) category were paid salaries of Rs.71,050, Rs,72,425, Rs.71,050 and Rs.69,675 respectively belonging to the Middle Management Service (MM) category.	An inquiry will be carried out by a committee appointed by the Ministry of Industry in this regard and the decisions taken therein will be taken in the future.	Recruitment should not be made contrary to the approved recruitment and promotion procedure of the entity and in the respective salary scales in accordance with the salary scales of the posts should be set up. Efforts should be made to recover excess salary payments.

4. Accountability and Good Governance

4.1 Budgetory Control

Audit Observation	Comments of the Management	Recommendation
Budgeted production of Illmanite, Hi-Ti Illmanite,Rutile,Zircon was 66,250 MT ,6,250MT, 4,100MT and 1,250MT respectively,But actual production was 29,741MT ,1,751MT, 741MT, and 268MT. Accordingly,The actual production was decreased by 45,349 MT or 58 percent than the expected mineral sand production of the company.	Due to the fuel crisis in the country from the end of March to end of September of the review year the company's generators, dryers and loaders. could not operate continuosely due to lack of fuel. Therefore, the production level of the machinery plant was decreased by 57 percent in the year 2022.	There should be an alternative program to achieve established goals.