## Lanka Mineral Sands Company Limited – 2017

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The audit of financial statements of the Lanka Mineral Sands Company Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My observations on the performance of the Company for the year under review which I consider should be tabled in Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### 1.2 Board's Responsibility for the Financial Statements

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The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### 1.3 Auditor's Responsibility

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### 1.4 Basis for Qualified Opinion

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(a) In terms of paragraph 51 of Sri Lanka Accounting Standard 16, assets costing Rs.438,163,555 had been fully depreciated as the useful life time of non-current assets had not been reviewed annually, they had still been in use. As such, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(b) A sand stock (block a tailing) having 7.88 per cent of mineral composition had been valued for sum of Rs.607,463,314, since last 03 years, had been shown in the financial statements. But, from the machineries belonging to the company can process only sand stocks having 40 per cent mineral composition and therefore, due to include sand stock having 7.88 mineral composition in to the final sand stocks the profit of the year under review had been overstated by Rs.172,595,796.

(c) Under provision for income tax of Rs.5,308,330 relevant to previous year had been adjusted to the retained earnings without showing in income tax expenses of the year under review.

(d) A sum of Rs.8,673,621 tax liability of the year under review, had been understated due to tax liability had been calculated after deducting not allowed allowances in the year under review by the company.

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in basis for qualified opinion of this report, the financial statements give a true and fair view of the financial position of the Lanka Mineral Sands Limited Company as at 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

a. The basis of qualified opinion and scope and limitations of the audit are as stated above.

b. Subject to the effects of the important limitations described in basis for qualified opinion of this report,

- I have obtained all the information and explanations that were required of the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- The financial statements of the Company comply with the requirements of Section 151of the Companies Act, No.07 of 2007.

### 2.3 Accounts Payables and Receivables

The following observations are made.

(a) A sum of Rs.45,000,000 given to the public institutions remained as advances without recovering over 06 years.

(b) A sum of Rs.21,807,204 refundable bid deposits had not been settled, after lapsed one year, even till 30 August 2018.

(c) Retention money amounted to Rs.9,852,554, charged on contracts from year 2011 to 2016 had not been settled even the date of this report.

(d) A sum of Rs.119,080,785 had been shown as receivable balance on Value Added Tax from the Inland Revenue Department at the end of the year under review but action had not been taken to reconciliation this balance by the Company. As such out of this balances a sum of Rs.73,301,247 or 62 per cent had been remained over 05 years.

## 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, regulations and Management Decisions were observed.

| Reference to Laws, Rules and Regulations etc. | Non-compliance |
|---|---|
| (a) Financial Regulation 135 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | Delegation of powers on financial activities had not been done at the beginning of the financial year. |
| (b) Public Finance Circular No.PF/PE 10 of 27 June 2000. | Even though, additional funds of the company should be invested on the concurrence of the Minister of Finance, a sum of Rs.900 million had been invested in fixed deposits during the year under review without relevant approval. |

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year ended 31 December 2017 a net profit of a Rs.473,599,862 as compared with the corresponding net profit of Rs.154,138,605 for the preceding year, thus indicating an improvement of Rs.319,461,257 in the financial result of the year under review, as compared with the preceding year. Increase in the income from sales due to increase of selling price of production by sum of Rs.250,442,879, the increase in the other operation income by Rs.34,018,115, increase in financial income by Rs.44,062,741 and decrease of cost of sales by sum of Rs.94,771,147 had mainly attributed to the said improvement.

### 3.2 Analytical Financial Review

|  | 2017 | 2016 |
|---|---|---|
| Current Ratio | 2.5:1 | 3.9:1 |
| Gross Profit Ratio | 66.8 | 51.7 |
| Net Profit Ratio | 33.2 | 13.1 |

The current Ratio of the year under review and preceding year were 2.5 and 3.9 and taken an overdraft was the reason for the decrease in current ratio during the year under review.

Also, Gross profit Ratio of the Company of the years 2016 and 2017 had increased from 51.7 to 66.8 and, Net Profit Ratio had increased from 13.1 to 33.2. Uncertainty sales items valued for Rs.172,595,797 had included to the closing stock and semi products valued for Rs.110,510,432 had not been included to the cost of sales had mainly attributed to the increase of Net Profit Ratio.

## 4. Operating Review

### 4.1 Performance

#### 4.1.1 Planning

Even though, the company had prepared an action plan for the year under review, budget, Procurement Plan, Human Resource Plan and Internal Audit Plan had not been included and prepared that plan in accordance with paragraph 5(2) of Public Finance Circular No.01/2014 dated 17 February 2014. Also, a sum of Rs.3,135 million had been included for implementation of 14 projects in to the plan but executing period of those projects and the officers responsible for had not been included and out of 14 projects 04 projects had not been implemented during the year under review.

### 4.2 Management Activities

The following observations are made.

(a) As per the decision of the Cabinet of Ministers dated 09 November 2011, a sum of Rs.500,000,000 had been granted as an advance to the Public Resources Management Corporation (SRMCL) and a legal action had been taken against that Corporation to recover the due advance and interest. But the advance and due interest as on 31 December 2017 amounting to Rs.12,421,448 had been off set against retained earnings without approval of the Treasury and Cabinet of Ministers.

(b) A sum of Rs.3,602,201 had been paid for legal expenses for the year under review as attention had not been paid to get legal service from the Attorney Generals' Department in 2017 and compared with the preceding year legal expenses of Rs.529,856, it had increased by 580 per cent.

(c) A sum of Rs.10,058,629 had been incurred from the companys' fund for the company welfare trips during the year under review.

(d) Necessary management actions had not taken in Non-moving stocks in the general stock as on 31 December 2017 valued for Rs.168,746,272 remained since last years.

**4.3 Idle or Under-utilization Assets**

The dryer machine purchased by paying an advance of Rs.43,838,767 to fix in Pulmudei Mechanical Plant in 2016 had not been used for production activities and had lapsed 02 years after purchase.

**4.4 Identified Losses**

Out of 03 bids received for selling 9000 Metric Tons of Ilmenite in 2017, 02 bids had been rejected on the advice of the Ministry and Cabinet Decision. Even though, a maximum price of USD 202.89 per Metric Ton had been offered from that rejected bids, only at USD 150 per Metric Ton had been received from the new bidding and, therefore, company had to bear a loss of Rs.71,405,500 from the sale of Ilmenite.

**4.5 Resources of the company given for other Government Institutions**

Contrary to the section 8.3.9 of Public Enterprises Circular No.PED/12 of 02 June 2003, 05 employees of the company had been released to the Ministry on temporary basis in 2015 and a sum of Rs.8,226,856 had been paid as salaries and allowances. But action had not been taken to reimburse that amount till even the date of this report.

**4.6 Staff Administration**

Even though, the head office had 70 approved cadre, 102 staff had been attached, and 04 officers had been recruited for 02 approved posts and a sum of Rs.3,129,678 had been paid as allowances.

**5. Sustainable Development**

**5.1 Achievement of Sustainable Development Goals and Objectives**

Every Public Institution should act in compliance with the Circular No.NP/SP/SDQ/17 of 14 August 2014 issued by the Secretary to the Ministry of National Policies and Economic Affairs on the ‘2030 Agenda’ of the United Nations for Sustainable Development. However, the Lanka Mineral Sands Company Limited had not aware as to how to take measures relating to the activities under purview of their scope. Upon being unaware of the said Agenda for the year 2030, the Company had not taken action to identify the goals of the activities relating to Sustainable Developments, targets and milestones in achieving the targets as well as the indicators for evaluating the performance.

## 6. Accountability and Good Governance

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### 6.1 Presentation of Financial Statements

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In terms of Public Enterprises Circular No.PED/27 of 27 January 2015, Public Company should presented financial statements to the Auditor General within 60 days after the closure of year of accounts. Nevertheless, the financial statements of the year under review had been presented on 24 April 2018 after a delay of 02 months.

### 6.2 Internal Audit

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Even though, an internal audit plan had been prepared for the year 2017, internal audit had not been carried out according to the said plan.

### 6.3 Audit Committee

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In terms of Public Enterprises Circular No.55 of 14 December 2010, the Audit and Management Committees should be held once in a three months, but Audit and Management Committees had not been held in years 2016 and 2017.

### 6.4 Procurements

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The following observations are made.

(a) In terms of guideline 4.2 of the Government Procurement Guidelines 2006, Procurement Plan had not been prepared by the company for 2017.

(b) Due to lack of proper Procurement Plan eleven desktop computers and seven Laptops costed for Rs.2,415,114 had been purchased in nine instances and therefore, applicable discounts had avoided and this procurements had been made contrary to the guidelines 2.8.1 and 2.6.1 (a)iii of the Government Procurement Guidelines 2006.

(c) In terms of guideline 6.2.2 of the Government Procurement Guidelines 2006, even though twenty one days should be given to submit bids under National Restricted Competitive Bidding, but only less than 12 days had been given in procurement of utility vehicles.

(d) Bid evaluation reports relevant to the company procurements had not been prepared in standard format stipulated in guideline 7.11.1. Even though, Technical Evaluation Report including bid evaluation report and supporting documents should be submitted to the Procurement Committee, the relevant report had directly handed over to the supply officer and supply officer had handed over the report to the Procurement Committee.

(e) It had identified that, two wheel loaders needed to the Pulmudei site bids had been called bids under National Competitive Bidding to procure only one wheelloader on 30 March 2017. The first and second lowest bids had been rejected due to non-compliances with specifications and wheelloader had been procured from the third lowest price for sum of Rs.23,735,000. Bids had again been called on 07 May 2017 to procure a same model wheelloader and procured the loader from the lowest bidder who was rejected at the first procurement stage due to non-compliance in specifications, for sum of Rs.19,739,800. However, prior to the procurement of the loader from that supplier, action had been taken to get a same model loader on hire basis and verified the compatibility with the requirement. But at first instance company had not taken action as required and procured in two instances within 39 days and therefore, had a loss of Rs.9,974,800 to the company.

## 7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Authorized Officer of the company time to time. Special attention is needed in respect of the following areas of control.

| Areas of Systems and Control | | Observations | |
|---|---|---|---|
| (a) | Stock Control | (i) | Confirmation not taken for Expiry situation in general stock, failure in verifying in future usage and present values. |
| | | (ii) | Not verifying raw materials and finished stock. |
| (b) | Accounting | (i) | Preparing financials and make journals by one officer and no supervision. |
| | | (ii) | Cancellation of same journal entry and make the entry again. |
| | | (iii) | Retained tax amount had added to gross interest income. |
| (c) | Advance Control | (i) | Non-settlement of advance in time. |
| | | (ii) | Advances given over exceeding the limit. |