Lanka Mineral Sand Ltd - 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Mineral Sand Ltd. (Company) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company . Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and 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 stated in Paragraph 1.5 of this report.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector 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 Institute'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 Institute 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 Sub-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 Institute.

1.4 Scope of Audit (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 Institute 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 Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute

- 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

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Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

	Audit Observation	Comments of the Management	Recommendation
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(a)	Overhead cost of Rs.450,234,384 related to the production process and included in the Factory Overhead Cost had not been taking into account in the computation of cost.	Expenditure has been correctly adjusted.	Reply cannot be accepted. All the overhead cost related to the production process should be considered in the computation of production cost.
(b)	Even though vouchers should be certified and approved before making payments for such vouchers, there were instances that only certification of vouchers had been done for the	Not replied.	In forwarding vouchers for payments, relevant approval should be obtained and subsidiary documents

	payment of the Processing Plant and there were some instances that subsidiary documents had not been attached to the vouchers.		should be attached.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though it had been stated in the preceding years that the general stock worth Rs.168,817,886 as at 31 December 2018 included unusable stock items purchased before a long period and those obsolete stocks should be identified, necessary steps had not been taken thereon. No provisions had been made in respect of those provisions.	Action will be taken to separate, sale by auctions or to write off from books.	In terms of provisions of the Standards, necessary allocations for the unusable and obsolete stocks should be adjusted in financial statements.
(b)	In terms of Sri Lanka Accounting Standard 08, vehicles worth Rs.138,960,439 and buildings costing Rs.40,859,572 the carrying amount of which had become zero and further being used by the Company had not been revalued.	Action will be taken in the future.	In terms of provisions of the Standard, assets should be revalued and necessary adjustments should be made in accounts accordingly.
(c)	In terms of Paragraph 55 of Sri Lanka Accounting Standard 16, despite being used the assets such as officials quarters with 12 units worth Rs.190,911,256 and the Yan Oya Water Scheme, those had been accounted for under the work-in-progress. As such, depreciation expenditure of the year under review had been under stated by Rs.17,691,669.	This will be adjusted in the year 2019.	In terms of provisions of the Standard, action should be taken to capitalize the assets further in use and adjust the provisions for depreciation in financial statements accordingly.

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In making payments for the contractors who collect sand at the Processing Plant, accounts had not been maintained on accrual basis and as such, expenditure for the year under review had been overstated by Rs.3,156,397.	Accounting will be carried out on accrual basis in the year 2019.	Accrual basis should be adopted in accounting.
(b)	As the Pulmudai Processing Plant had not made provisions for the expenditure of Rs.8,158,136 incurred for the annual trip ,2017 during the year 2017, it had been accounted for as expenditure of the year under review.	Since it is not an error of the principles, it is correct to adjust as the recurrent expenditure.	Action should be taken to account for the expenditure as per the relevant year.
(c)	According to the records of the Company, out of Block A Tailing stock, a stock of 186,582.83 metric tons costing Rs.286,940,315 collected in the years 2017 and 2018 and calculated by the Audit had been used for reclaiming the shore. Nevertheless, adjustments on that removal had not been adjusted in the financial statements.	According to the stock registers, no entries had been made therein that 186,523.83 metric tons had been used for reclaiming the shore.	In the preparation of accounts, action should be taken to consider the value of the physical stock and to prepare financial statements accordingly.
(d)	According to the stock verification, a stock shortage of 35,724.51 metric tons worth Rs.75,366,939 of the Block A Tailing stock was observed. Nevertheless, adjustments in that connection had not been made in the financial statements.	Since the physical stock verification carried out by the Dona technology is not accurate, book value was included in the financial statements.	Action should be taken to conduct stock verification in terms of a specific methodology, account for the correct stock and to prepare financial statements accordingly.
(e)	According to the Ilmenite Trade Account, in calculating the cost of closing finished stock, the	This will be corrected in the year 2019.	Cost of the finished stock should be calculated according

	cost of 01 metric ton amounting to Rs.1573.50 should be taking into account as its base. Nevertheless, calculation had been made based on another cost and as such , the closing stock had been overstated by Rs.7,052,804.		to the correct cost estimates.
(f)	Consultancy fee of Rs.4,086,803 paid for the unimplemented projects had been accounted for as the work-in-progress.	This amount will be written off from books by obtaining approval of the Board of Directors.	Action should be taken to correct the accounting errors.

1.5.4 Unauthorized Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	Stock shortage of Rs.63,014,139 and excess of stock amounting to Rs.4,418,351 recognized at the physical stock verification carried out as at 31.12.2018 had been adjusted to the retained earnings without proper approval. Since this loss had not been adjusted to the profit of the year under review, profit of the company had been overstated by Rs.58,595,788.	Adjustments have been made to the retained earnings and financial statements have been approved.	The identified difference should be waived from the profit on the approval of the Board of Directors and action should be taken according to the financial statements with regard to the shortages.
(b)	Even though allowances of Rs.17,088,899 had been paid for the staff due to completion of 60 years of the company, approval of the General Treasury had not been obtained for this purpose.	Approval of the Board of Directors has been obtained and the Treasury was informed through the Secretary to the Ministry.	Action should be taken to make payments after receiving the Treasury approval.

1.5.5 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not presented	Comments of the Management	Recommendation
	Rs.			
Lands	3,029,244	Gazettes relating to the transfer of the land , valuation reports.	Those will be obtained from the Legal Divisions and presented.	Particulars relating to the acquisition of land should be furnished to Audit.
Fixed assets	796,653,943	Board of Survey Reports	Boar of Survey on assets will be carried out by the Internal Audit Division.	Board of Survey Reports should be furnished to Audit.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comments of the Management	Recommendation
(a) In terms of Cabinet Decision dated 09 January 2011, the Company had given Rs.500 million to the State Resources Management Corporation on 10 January 2012 to pay compensations of the employees of the Ceramic Corporation. In terms of Condition 5 of the agreement entered into by both parties, no indication had been made regarding the recovery of loan amount and the interest. It had been stated in Condition 06 to offset this amount from the dividends to be paid to the General Treasury by the Company without concurrence of the General Treasury. The loan amounting to Rs.517,421,448 and the interest had not been received as yet and	Allocation will be made in consultation with the General Treasury.	An adequate allocations must be made in the financial statements.

	balance confirmation certificates as well had not been obtained. As the recovery of this loan is uncertain, adequate allocations had not been made in the financial statements.		
(b)	According to the financial statements as at the end of the year under review, although sums totalling Rs.25,000,000 had been granted to the State Plantation Corporation, any amount thereof had not been recovered up to date. As the recovery of this loan is uncertain, adequate allocations had not been made in the financial statements.	Legal action is in progress and balance confirmations are expected to be obtained.	Adequate allocations must be made in the financial statements and action should be taken to recover the money.

1.6.2 Funds Payable

Audit Observation		Comments of the Management	Recommendation
(a)	Balances of Rs.5,372,139 payable to sundry creditors had not been settled.	By obtaining approval of the Board of Directors, this will be settled in the year 2019	Action should be taken to settle balances.
(b)	Action had not been taken to settle the balances of Rs.11,308,137 relevant to the period from 2012 to 2016 contained in the retentions of Rs.14,534,964 retained from the contractors and the relevant assets had not been capitalized.	This matter will be referred to the arbitration board according to the instructions of the ICTAD Institute.	Balance should be settled and the relevant assets should be capitalized.

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)	Guideline 4.2.3 of the Government Procurement Guidelines.	The Procurement Plan had not been prepared so as to include the details such as the procurement procedure, responsible parties, supply of provisions and timeframes. Even though provision of Rs.2,323,371,150 had been made by the annual budget for the capital works, provisions of Rs.925,850,000 only had been included in the Procurement Plan. Progress of the procurement had not been prepared by the end of the year.	Shortcomings will be corrected in the year 2019.	Action should be taken in accordance with the provisions in the Procurement Guidelines.
(b)	Section 8.2.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Approval of the Ministry of Finance had not been obtained for the fixed deposits amounting to Rs.347,544,421.	Since it is a temporary deposit, an approval is not necessary.	Approval of the Ministry of Finance should be obtained for the Fixed Deposits.
(c)	Public Enterprises Circular No.PED/2015/01 dated 25 May 2015	A sum of Rs.55,972,250 had been paid to 611 employees as transport allowances without obtaining approval of the General Treasury.	Approval should be sought from the General Treasury through the Ministry.	Approval of the General Treasury should be obtained for the payment of allowances.

1.8 Finance Management

Audit Observation	Comments of the Management	Recommendation
In terms of Financial Regulation 385, when there is a bank account, a colossal amount of payments should not be made in cash, payments for the medical bills, fuel allowances and attendance allowances of the employees of the Processing Plant had been made in cash monthly. The value thus paid	It has been done at the requests of the employees.	Action should be taken in accordance with Financial Regulations.

during the year 2018 had been Rs.83,590,000.

1.9 Non-compliance with Tax Regulations

Audit Observation		Comments of the Management	Recommendation
(a)	In terms of Inland Revenue Act No.24 of 2017, the tax on income of the Company should be calculated at 14 per cent, whereas it had been calculated at 12 per cent and as such, income tax had been short allocated by Rs.14,284,391.	This will be corrected in the year 2019.	Action should be taken in accordance with the Act.
(b)	According to the Inland Revenue Act, the payable Economic Service Charge on the sale of Rs.1,541,897,794 of the Company for the year 2018 amounted to Rs.7,709,489. Nevertheless, provisions for that purpose had not been made in the financial statements.	According to the Act, payments for the years 2019/20 should be made from 20 July 2019.	According to the provisions in the Act, Economic Service Charges should be paid from the year 2018/19.

2. Financial Review

2.1 Financial Results

The operations of the Company for the year under review had resulted in a surplus of Rs.621,729,796 as compared with the corresponding surplus of Rs.534,540,191 for the preceding year, thus observing an improvement of the financial results by Rs.87,189,605. This improvement was mainly attributed to the remaining of stocks.

2.2 Tendency Analysis of the Main Income and Expenditure Items

Income/Expenditure	2017	2018	Difference	Percentage
	Rs.	Rs	Rs.	%
Sales	1,424,385,555	1,541,897,793	117,512,238	8
Sales cost	471,561,438	673,270,906	201,709,468	43
Administrative Expenditure	179,889,185	198,778,166	18,888,981	10

Even though net sales of the Company had increased only by 8.24 per cent in the year 2018 as compared with the year 2017, the sales cost had comparatively increased by 43 per cent. The reasons such as failure to carry out 63 per cent sales of the targeted sales of the Company, absorption of more cost for Low grade Crude Zircon annually and deduction of stock shortage identified according to the Board of Survey conducted as at 31 December 2018 from the closing stock had given rise to the increase in the sales cost.

2.3 Ratio Analysis

Ratio	2018	2017	Difference
Current Assets Ratio	1:3.3	1:2.5	0.8
Quick Assets Ratio	1:1.2	1:1.2	-
Gross Profit Ratio	56	67	11
Net Profit Ratio	40	37	03

Even though the decrease in the gross profit ratio in the year 2018 was 11 per cent as compared with the year 2017, decrease in the net profit ratio was 03 per cent and that decrease was mainly attributed to the decrease in the operating expenditure by 56 per cent, viz, although the working machinery hours during the year 2017 was 66 hours, it had increased by 98 per cent in the year 2018, thus decreasing the overhead cost which had not been absorbed.

The reasons such as settlement of bank overdraft, increase in the closing stock due to failure in selling stocks of minerals had given rise to increase in the current assets ratio up to 1:3.3 in the year 2018 from 1:2.5 in the year 2017. Sixty four per cent of the total current assets represented the closing stock and it had attributed to be the quick assets ratio at 1:1.2.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
The total overdraft balance of two main current accounts stood at Rs.536 million as at 31 December 2017 and it had been Rs.477 million as at 31 March 2018. As a result, fixed deposits of Rs.900 million invested in the year 2017 for a maturity period of three years had been withdrawn in March and May 2018. Accordingly, an income of Rs.35,420,283 of the expected interest income of Rs.65,215,069 only had been received. A lost amount of Rs.29,794,786 had been written off from the retention earnings of the year under review.	Following the appointment of new governing body, overdrafts and payable interests were completely settled.	Investments should be made so as to receive maximum benefits.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<u>Weaknesses of the Mineral Sale Process</u> The quantity of minerals expected to be sold by the Company was 138,045 metric tons and the sales value thereof amounted to Rs.3,862,157,000. Nevertheless, actual quantity of mineral sold was 50,787.1 and the sales value stood at Rs.1,541,897,793. Accordingly, 87,257.84 metric tons or 63 per cent of the expected quantity of mineral could not be sold and following reasons had attributed therefor.	The delay occurred in tendering is not a weakness of the Company.	Sale process should be carried out with the existing limit of authority according to a plan.
• The Company had not carry out sales within the existing limit of authority. • Sales process had not been carried out according to a plan. • Cancellation of 55 tenders presented during the year. • Failure to call for tenders during the times when high and fixed prices had been in existence in the market. • Even though sales had been carried out under competitive bidding method, lesser number of bidders had forwarded bids in calling for bids.	Sales are carried out on necessary approvals according to the market condition.	
• Since intermediate companies which were not involved in the mineral based industries operated in purchasing of minerals of the Company, prices lower than the existing market price had been presented for the bids of the Company.	Since a monopoly market is in operation, it is found difficult to involve more number of buyers. The industrial countries should be made aware through an intervention of the Ministry of External Affairs.	

3.3 Operating Inefficiencies

Audit Observation		Comments of the Management	Recommendation
(a)	The Block A Tailing stock had been recognized as a stock existed before the year 2016 and its cost of production had been divided among other productions. Albeit, at the stock verification carried out by an independent party after the year 2016, it had been decided to recognize this stock of 350,471.87 metric tons as a stock of minerals produced by this Company at a value of Rs.434,867,518. Accordingly, this stock had been 416,901.79 metric tons as at 31 December 2018 and the production cost included therein had been Rs.879,525,348. The net realized value of this stock had not been computed. In the inclusion of cost for this stock with less mineral composition, calculation had been made by applying the inclusion unit cost of the salable finished units with high mineral composition. As a result, the cost included in the other finished stock had decreased and the profitability of the company had increased.	A decrease in the cost of production included in the finished stocks within the production processing process of the Company and decrease in the profitability has not taken place and the Block A tailing stock is quantitatively large.	In the inclusion of cost, the calculation should be done at a low cost without applying the unit cost of other salable finished stocks.
(b)	Since the Block A Tailing stocks cannot be further processed with the use of machines available in the Company at present, the Company had failed to process them with the use of new machines or sale such stock under the prevailing condition.	With the approval of the Line Ministry, tenders have been invited for the sale of 325,000 metric tons of Block A Tailing stocks.	Action should be taken to process the stock using new machines or sale them under the prevailing position.
(c)	Due to decrease in the net	In taking into consideration	Action should be

realized value of the stock of the Company at the cost, a sum of Rs.23,044,621 had been written off from the stock of Low grade Crude Zircon as the other income during the year under review. A cost of Rs.39,449,525 of the same stock had been so written off in the previous year as well. Out of the cost of production of the Company, a cost of Rs.82,449,525 or Rs.7969.66 per unit had been included in respect of this stock in the year 2018. Nevertheless, under the existing market condition, the unit price had been determined as Rs.4519.80. The cost of production of this stock had increased exceeding the expected benefits of the stock.	the production cost of a unit, a loss position is observed and suitable measures will be taken in this regard in the future.	taken to control cost and minimize the losses.

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
Expenditure of Rs.10,058,629 and Rs.12,018,463 had been incurred on the annual trip organized for the employees of the Company during the years 2017 and 2018 respectively. Provisions had not been made from the annual budget for this purpose.	Not replied.	Once the requirement is identified, funds should be utilized in order of priority.

3.5 Idle or Underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
(a) In repairing the Cab bearing No.251-7026 purchased in the year 1998 during the years 2017 and 2018, prices had been obtained without calling for sealed quotations and the	Not replied.	Action should be taken to use the assets at their maximum capacity and steps should be taken to expedite the

	persons who demanded the goods, who recommended them and the supply officer had directly involved in this regard. Approval of the Procurement Committee had not been obtained for this repair. The Internal Auditor had participated in the Technical Evaluation Committee and the prices quoted had been altered tactfully. Even though the Internal Auditor had made recommendations on 23 April 2018 for a disciplinary inquiry, inquiries had not been completed. Despite being repaired this vehicle at a cost of Rs.2,421,800 in 06 instances, it had been retained in the garage without being used for running.		disciplinary inquiries and to be complied with the Financial Regulations.
(b)	According to the Technical Evaluation Report, a Drier Machine had been imported and installed on 30 June 2016 at a cost of Rs.62,370,234 in order to save the cost of fuel by 50 per cent. The Company had borne demurrage of Rs.1,164,350 for that purpose. As the Management had not taken decisions in time and not providing necessary infrastructure facilities, this machines had not been brought to usable condition despite lapse of 3 years and it had not been used for production activities. Accordingly, the expenditure that could not be saved during that period had been Rs.55,927,339.	Not replied.	The machine should be adjusted to usable condition and thereby, steps should be taken to minimize the fuel expenses.

3.6 Delays in Projects or Capital Works

	Audit Observation	Comments of the Management	Recommendation
(a)	For the establishment of Head Officer of the Company, a land of the Urban Development Authority had been obtained on 30 years lease basis in the year 2013 by paying Rs.24,220,118. Even though a contract for the construction of 06 storied building in this land had been awarded to a contractual company at the contract value of Rs.189,147,019 on 27 February 2016, works had not been commenced by signing agreements between two parties.	Once the approval of the Ministry is given, discussions will be held with the relevant company.	Action should be taken to enter into agreements between two parties.
(b)	In order to implement the Kokilai Project, lands had been acquired at a cost of Rs.2,250,000 in the year 2013. Machines had been purchased by spending Rs.39,339,472 for the establishment of Processing Plant and 117 employees had been recruited. Nevertheless, it had not been possible to obtained the mining licence for the Kokilai Project. An EIA report on the impact caused to the environment could not be obtained even by 31 December 2018 and despite being allocated Rs.100 million from the annual budget,2018 to establish the Processing Plant, it could not be implemented.	Future steps regarding the EIA report are in progress and expected timeline had elapsed due to complexity of the project and Cabinet approval should be obtained for the project report.	Action should be taken to obtain the mining licence and initiate the activities of the Kokilai project.

3.7 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) Even though the staff of 70 members and 16 Posts of personal to the holder basis had been approved to the Head Office, there were 99 staff grade and non-staff grade members. Of the above staff, 20 members of the Accounts Assistant, Management Assistant and Security Guard had been in excess. Although the above excess was due to employing 29 officers attached to the Pulmudai Processing Plant in the Head Office, there were vacancies of 11 posts of the Processing Plant.	A staff consisting of 123 members had been approved for the Head Office in the year 2007 and it had been reduced up to 70 in the year 2011. Nevertheless, the workload has not been decreased and as such, there is an excess of the staff.	Action should be taken to attach the excess staff to the vacancies available in the Processing Plant.
(b) The post of General Manager of the Company had fallen vacant from March 2015 and officers had been recruited on secondment basis from time to time for the above post. The Company had not taken steps to recruit a permanent officer for the responsible duties such as implementation of policies and decisions involved in the production, administration, accounts and other affairs of the whole Company.	Although applications were invited, a qualified officer could not be selected and request was made to the Department of Management Services to reduce the level of qualification applicable to the post.	A permanent officer could not be recruited.
(c) Five officers who had been granted grade promotions had been absorbed to the HM Salary Code applicable to the Executive Grade in terms of Management Services Circular No.30. Albeit, those posts had not been included in the approved cadre. Accordingly, approval of the Department of Management Services should have been obtained to revise the cadre.	In granting grade promotions, officers have been absorbed to the HM service category and payment of transport allowance to the posts not approved to the HM service category has been stopped from January 2019.	Approval of the Department of Management Services should be obtained for these posts.

Nevertheless, without being obtained such approval, salaries and transport allowances of the Executive Grade had been paid on the approval of the Board of Directors. Even though promotions had been granted to two officers according to the vacancies occurred in the posts, three officers are already being paid the salaries applicable to the Executive Grade.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
In terms of Section 6.5.1 of the Public Enterprises Circular No.01/2014 dated 17 February 2014, the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year. Nevertheless, financial statements had been presented on 03 May 2019.	Not replied.	Action should be taken in terms of provisions in Circular.

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
In terms of Paragraph 05.2 (c) of the State Finance Circular No.01/2014 dated 17 February 2014, the Human Resource Development Plan should be included in the Action Plan and according to the Paragraph (e), the Internal Audit Plan included therein. Nevertheless, the Company had not included those information. Moreover , as per the Action Plan of the Company, a sum of Rs.2274.6 million had been allocated for 12 main projects from the annual budget. It had been failed to	Action will be taken in the future.	Action Plan should be prepared in accordance with the provisions in Circular and steps should be taken to carry out the planned activities in terms of the Action Plan.

implement these projects within the year.		

4.3 Internal Audit

Audit Observation	Comments of the Management	Recommendation
In terms of Section 38 (f) of the National Audit Act No.19 of 2018, the Accounting Officer shall ensure that an effective internal control system for the financial control exists and carry out periodic review to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out. Those reviews to be carried out shall be in writing and copies thereof shall be made available to the Auditor General. Nevertheless, no information was reported that such review had been carried out. In terms of Section 40(4), Internal Audit Reports had not been forwarded to the Department of Management Audit. Further, despite being appointed 05 officers including two officers at Senior Management level to the Internal Audit Unit, an adequate audit had not been carried out as per the Audit Plan.	Not replied.	The Management should ensure that an adequate audit is carried out by the Internal Audit Unit.

4.4 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
As there were substantial variances among the budgeted income, expenditure and capital expenditure, the budget had not been made use of as an effective instrument in management control. Details appear below. Income/ Budget Actual Differen	Not replied	Budget should be made use of as an effective instrument in management control.

Expenditure	ed Rs. ML	Rs. ML	ce Rs. ML
Sales	3,862	1,541	2,320
Other Income	15	39	24
Financial Income	220	84	135
Administrative Expenditure	272	198	73
Operating Expenditure	-	161	161
Capital Expenditure	4,806	149	4,656

4.5 Environmental Issues

Audit Observation	Comments of the Management	Recommendation
Out of total mining of 309052 metric tons carried out in the year 2018, about 101152 metric tons equivalent to 33 per cent had been mined in the private lands adjacent to the shore and the mined areas had not been properly filled, thus causing damages to the shore.	Most lands have been alienated for various purposes and certain lands had been so disposed of before the establishment of the Company. Mining will be carried out so as to minimize impact to the shore.	Mining should be done in a manner not causing damages to the shore.