

## **Lanka Mineral Sands Limited - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Lanka Mineral Sands Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2019, 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 Qualified Opinion**

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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**

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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 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<sup>1</sup> prepared of the Company.

## 1.4 Scope of Audit (Auditor's Responsibility on the Audit of the Financial Statements)

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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 Regarding the Preparation of Financial Statements

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### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

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Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
<p>(a) Although after finding quantitative errors relating to the previous period, have to corrected arbitrarily in accordance with Section 42 of Sri Lanka Accounting Standards (LKAS) No. 8, the Company purchased the Wet High Intensity Magnetic Separator with a Control Panel Board Machine worth Rs. 71,565,328 on 12 August 2019 and used in the same year was taken into account as a machine purchased in the year 2020 and the depreciation of Rs. 2, 981,890 for the year 2019 had not been adjusted to the profit of the previous year and had been added to the annual depreciation of the year 2020.</p>	<p>The Company had been Discussed with the machinery section and considered as a capital asset for the year 2020, it was adjusted to the accounts for the year 2020 and not for the previous year.</p>	<p>Depreciation Adjustments should be done to the relevant period according to the standard.</p>
<p>(b) According to paragraph 51 of Sri Lanka Accounting Standards 16 on Property, Plants and Equipment, the useful life of assets should be reviewed at least every financial year and if the effective life expectancy is different from previous estimates, changes are required to be accounted for in accordance with Sri Lanka Accounting Standards (LKAS) 8, although fully depreciated but current use, cost was Rs. 175,746,070 of motor vehicles and the cost was Rs.45,294,704 of building had not been reviewed the useful life time and accounted for accordingly.</p>	<p>Although a revalue of these vehicles and buildings had been discussed, it had not been possible in the face of the global Covid-19 epidemic.</p>	<p>Assets should be revalued in accordance with the provisions of the standard and necessary adjustments should be made in the accounts accordingly.</p>

## 1.5.2 Accounting deficiencies

<b>Audit observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) During the last stock physical verification of some of the minerals that had not been sold during the year under review, there were surplus and deficit differences between the book balance and the physical balance ranging from 4991 MT to 1274 MT. The closing stock and the profit for the year had been increased by Rs.40,277,578 due to adjustments to the stock without identifying the reasons for the changes in the stock and obtaining formal approval and adjusting the accounts based on non-relevant production costs.	In adjusting the stock changes, the stock cost had been accurately adjusted in the trading accounts and in the stock accounts.	The overhead cost should not be adjusted again for stocks that have been calculated and completed and only the physical stock difference should be adjusted to the relevant stock account.
(b) The closing stock of gross sand for ilmenite was 151,762 metric tons, but the accounted quantity was 149,065 metric tons. Accordingly, due to the accounting of less than 2,696 MT, the final stock value of the gross sand was reduced by 1,058,233 and the production cost of the B plant was increased by that amount.	Necessary actions will be taken to adjust and correct the accounts for the year 2021.	The accurate stock value must be taken into account.

## 1.6 Accounts receivable and payable

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As per the Cabinet decision dated 09 January 2011, the company has paid Rs. 500 million to the State Resource Management Corporation on 10 January 2012 to pay the employee compensation of the Ceramic Corporation. During the year under review, Rs 103,484,290 doubtful debts had been allocated for this loan and the loan amount of Rs. 517,421,448 had not been recovered till the end of the year under review.	Legal action is being taken to recover and in the future the company will submit a Cabinet Memorandum to set off the dividend payable to the General Treasury at the rate of Rs. 50 million per annum.	Action should be taken to recover the loan and interest.
(b) The company had not been able to recover Rs. 25,000,000 and Rs. 5,000,000 in loans to the Plantation Corporation and the National Paper Corporation since 2012.	An agreement has been reached to acquire a land worth Rs. 25 million due from the State Plantation	Adequate provision should be made in the financial statements and

Corporation and to pay to the company after selling the assets of the National Paper Corporation. action should be taken to recover the money.

**1.7 Non-compliance with Laws, Rules, Regulations, and management decisions etc.**

References to Laws, Rules, Regulations etc	Non-compliance	Comments of the Management	Recommendation
(a) Public Finance Circular No. 02/2015 dated 10 July 2015	Although it was stated that action should be taken to dispose of dilapidated and unusable vehicles, 08 vehicles owned by the company which have been taken out of service for a period of 2 to 10 years have not been disposed of so far.	Bids have been called for the sale of vehicles.	Disposal should be done in accordance with the circular rules.
(b) Department of Public Enterprises Circular No. 1/2020 dated 27 January 2020	Without the prior approval of the Department of Public Enterprises, three sub-committees were appointed in each of the six areas and Rs.200,000 had been paid for the field visit to Pulmudai with the approval of the Board of Directors. Although it was stated that the monthly allowance for board meetings could not be exceeded Rs. 25,000, allowances exceeding that limit Rs. 60,000 had been paid contrary to the circular provisions to two persons who had attended meetings These officials had not provided the company with any records of field visits.	The company implements the rules, regulations and the procurement process in a timely manner, efficiently and efficiently.	Do not act contrary to the circular rules.

**2. Financial Review**

**2.1 Financial results**

The operating result of the year under review amounted to a deficit of Rs. 50,797,328 and corresponding surplus in the preceding year amounted to Rs. 2,277,746,050. Therefore, a decline amounting to Rs. 2,328,543,378 of the financial result was observed. The main reasons for this decline were the cancellation of ilmenite sales tenders, non-sale of stocks, non-availability of stock,

inadequate storage facilities and non-production of ilmenite for about six months due to overcrowding.

## 2.2 Trend analysis of major revenue and expenditure subject

The net sales of the company had been decreased by 82% in 2020 compared to 2019, while sales costs had been decreased by 71%. The decline was mainly due to the cancellation of sales tenders in the year under review and the release of only 5032.86 MT of the 85,000 MT ilmenite tender by 31 December 2020.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) There were four bids for the tender of 85,000 MT of ilmenite and the highest bid of US \$165.20 per tonne had been rejected, stating that the bid was not a guaranteed liability bid and that the second bid of US \$ 163 had been rejected as only for 5,000 MT. Although last year financial statements had not been submitted, the tender was awarded to the third bidder who agreed to purchase to US \$ 147. As a result, the company had incurred a loss of US \$ 1,547,000 for 85,000 MT at US\$ 18.20 per one MT due to non-agreement to award the tender to the highest bidder. Although the tender for the sale of ilmenite had been awarded on 28 October 2020, it agreed to remove 85,000 MT for US\$ 147 within 130 days. US \$ 3,675,000 had been paid for only 5,032.86 MT at the end of the year under review and another US \$ 2,940,000 had been paid and removed only 30,000 MT by the end of March 2021. The balance of US \$.5,880,000 had not been paid till the end of March 2021.</p>	<p>With the approval of the Board of Directors and the Cabinet, The tender had been awarded to the bidder for US \$147.</p>	<p>Follow the procurement guidelines and strive to get the highest price through maximum competition while making decisions that benefit the company.</p>
<p>(b) A land owned by the Urban Development Authority was acquired in 2013 for the construction of the head office of the Mineral Sands Company by paying Rs. 24,220,118 on a 30 year lease. The contract for the construction of this 15,325 sq. Ft. 06 storey building was awarded in March 2018 at a cost of Rs.171,453,486 (VAT free). Section 8.6 of the Procurement Guidelines 2006 stipulates that a</p>	<p>Construction of the building has been delayed by two years due to occasional changes in management. Construction is currently underway and is being</p>	<p>Action should be done to reach for a formal contract agreement containing the main specifications and to expedite the construction of the head office building</p>

formal contract agreement must be signed immediately upon acceptance of the bid submitted by a bidder, but the agreement with the contractor was signed on February 26, 2020, two years after the contract was awarded. However, the agreement did not include key specifications such as contract cost, payment terms and contract period..

Construction of the building had commenced in March 2020 and the land had been vacant for seven years. Eight years have passed of the 30-year lease term at the end of March 2020, but only four floors of the six-story building have been upgraded.

maintained at an optimum level. The contract agreement could not be signed immediately upon receipt of the bid and the contract for the commencement of construction had been signed using the Form of Agreement (Refer SBD 02) approved by the CIDA. Contracts are subject to change only for charges, while other terms and specifications remain the same as agreed upon in the contract bid.

- (c) Although the tender was awarded on 27 May 2020 by selecting one of the 6 bidders for the transport of heavy mineral sand from Poduwakattu to the Pulmudai Machinery and for land reclamation and transportation of sand at a cost of Rs.234 per one MT but the bidder had not transported the mineral sand at that price. The company had not taken any action against the bidder for not transporting the mineral sand at the agreed price and on 11 July 2020, the company had agreed to pay Rs.320 per one Metric Ton for the first bidder without allowing the remaining bidders to transport the sand. Although the amount agreed to be paid according to the original bid was Rs.20,439,258, due to the price changing Rs 27,836,420 had been paid and the company had incurred a loss of Rs. 7,397,161.

No answers provided.

Should follow the procurement guidelines and make decisions that benefit the organization.

### 3.2 Operational inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
<p>(a) The expected total sales of minerals of the company was 113,996 MT by 2020 and its sales value was Rs.4,660,524,000 but the actual sales volume was 14,955 MT and its sales value was Rs. 696,597,134 MT. The expected targets could not be achieved due to the limited number of buyers under international competitive bidding, the cancellation of tenders for various reasons and the sale of large quantities at once. Failure to make sales during the year under review was result in poor financial position and reduced liquidity, on several occasions for daily needs and due to early withdrawal before matured of 6 fixed deposits of Rs. 450,000,000, the expected interest income of Rs.7,573,770 had been lost and in the face of the covid 19 epidemic situation, the expected sales did not take place and the storage facilities were not adequate due to non-availability of stocks and the company had faced a number of problems such as weakening of stock conservation.</p>	<p>The LMS / MKT / TDR / 2020/01 tender, which includes tenders called Rutile, Zircon, Hi Ti Ilmenite and Ilmenite, which were called for tenders in March 2020, was awarded to customers in October 2020. Expected sales revenue fell in the face of the Covid-19 epidemic.</p>	<p>The firm should work to increase sales, find new buyers and follow tender procedures duly to avoid cancellations.</p>
<p>(b) The production capacity of the block A old plant is approximately 100 MT per hour but the current capacity is as low as 40 and 50MT. Low output due to non-delivery of inputs to full capacity adversely affected the performance of the entire plant. Although Spiral is designed to separate 40 to 80 percent of the lightest mineral sand in the plant, sample tests for the samples taken in March-April-September 2019 and February-March-April 2020 had been less than 40 percent except few days.</p>	<p>This situation has arisen due to the fact that rough sand mining has been carried out in Pulmudai for more than 65 years. Appropriate inputs can be used in the future as the heavy mineral sand composition of the new deposit is high.</p>	<p>Efforts should be made to find new mineral sands deposits with high composition.</p>
<p>(c) During the year under review, the company had 77,247 MT and 15,419 MT of opening stock and production of the year of ilmenite, Of this, 5,436 MT had been sold in January and 5,053 MT in December. As the company had sold 85,000 MT in October 2020, but the buyer had not paid money and removed them properly, exceeding the total capacity of the two warehouses which the capacity of 60,000 MT</p>	<p>The plant was inactive for several days in March 2020 due to the Corona Epidemic and was inactive from 31 May 2020 to 11 March 2021 due to limited storage facilities. During that time many of the essential</p>	<p>The buyer should be instructed to withdraw the stock as soon as it is sold and will be charged for the delay.</p>

ilmenite storage. As a result, production of ilmenite had been stopped for a significant number of days from January to May of the year under review, and from June 1, 2020 to March 18, 2021, production at Block B was halted, leaving all other machinery, including Block C, idle until that time.

repairs and modernizations of the plant were carried out.

### 3.3 Controversial Transactions

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
(a) Although paragraph 6-B of the Bonus Payment Procedure approved by the Ministry of Industry on March 12, 1990 stipulates that the payment of bonuses should be based on profit for the year, but for non-profit for the year under review, the total value of bonus Rs. 59,500,000 had been paid in advance as Rs.10,300,000 for Head Office employees and Rs.49,200,000 for Pulmudai employees. Further, this had not been approved by the Board of Directors of the Company, the Ministry or the Treasury.	Approval has been given for 50% of this advance, but Rs. 100,000 incentive advances had been given to the employees of the institution subject to adjustment of profit after preparation of 2021 annual accounts.	Must comply with approved bonus payment procedures.
(b) The Company had paid as an advance of Rs. 324,946 on 15 October 2020 and Rs. 81,010 on 4 March 2021 to the Sri Lanka Navy for the purchase of a firearm worth Rs. 405,956 for the protection of the Chairman. Although the relevant firearm had been received to the company by 29 April 2021 and, it had not yet issued a Goods Receipt Note (GRN) by 10 May 2021. In addition to the above amount, an advance of Rs. 100,000 had been paid to Cosmic Technologies on 30 September 2020. the purpose of the payment had not been disclosed to the Audit. Also, it was not clear to the auditor what the need was to purchase a firearm.	No answers given.	Use money wisely and be careful not to incur unnecessary expenses.

### 3.4 Idle or Underutilized Property, Plant and Equipment

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
(a) Due to the inability to achieve the maximum capacity of the existing Block A plant of the company, construction of	Preliminary work has been completed to replace the old machinery in the new factory	Work should be done to get maximum capacity from the

the new Block A plant was started in 2014 at a cost of Rs. 39,481,066 and had been completed in 2017. Although Rs.179,229,302 worth of machinery purchased for its installation in 2012 and parts purchased for the Kokilai project had been installed at the plant, the plant had not yet been in production until 30 April 2021, the audit date from October 2019.

(b) In 2013, the company acquired 17.6 hectares of mineral sand rich land in the Kokilai area and paid Rs. 2.25 million to the Mullaitivu District Secretary in 2012 and In the same year, Rs. 39,339,473 had been spent on the purchase of machinery for the Kokilai project. No excavation work had been carried out in the area until the year under review due to non-availability of the required excavation permit. Further, all the assets purchased for the project had been located elsewhere in the Pulmuday plant and had been idle in some of the machinery depots. Twenty-four spirals of these machines had been installed in the old Block A plant, but were not in working condition. Also in 2015, Kokilai project recruited 117 workers for the project and attached them to various locations in the Pulmudai plant. Accordingly, the presence of overstaffing also contributed to the increase in the cost of production.

(c) To save 50 percent on fuel costs, the company imported Rs.62,370,234 worth of dryers on 30 June 2016 and paid Rs.43,838,767 for them by 31 December 2020, including a late fee of Rs. 1,164,350 even though 5 years had passed, although the company had not yet been able to put the machine into operation and put it to production by 21 March 2021, the company had not identified the responsible officials and taken action against them.

and a panel board has been ordered. Preliminary work has been done to complete the installation of the remaining machines in the old plant, namely Spiral, in the new plant to start the work. By This is expected to increase the feed rate from 40% to 50%.

For several years from 2013, Spiral was used for the manufacturing process. But the holes in the pipeline that carries water for the Spiral are so small that it constantly clogs up. Therefore, after discussing the issue with the production companies, we have been given a drawing of the solution to the issue. Accordingly, it is hoped that the pipeline will be rehabilitated and used for manufacturing activities in the future.

75% of the work to implement this has been completed by now. Due to unavailability of password it can't complete the work and Due to the inability to complete, the software will be rewritten or modified in the future.

machines and production should start immediately.

The Kokilai project should be started soon and the machinery should also be used to the production process.

Action should be taken to make the machine operational and action should be taken against the responsible officials.

<p>(d) The company had decided in the year 2014 to import the new Hydroziser machine for the wet sand plant through a Sri Lankan company, a representative of Australian Mineral Technologies, and had been imported on the value of Rs. 15,426,302 on 15 January 2016, as an urgent and essential purchase to enhance the company's manufacturing operations. Although 4 years have passed since the purchase, the company had not yet used of this machine for production by 21 March 2021. Although it was clear that the machine was not purchased for emergencies, the company had not taken action against the officials responsible for purchasing the machine.</p>	<p>The machine is being tested with water and then with sand. It is expected to continue to be used for production in the coming week.</p>	<p>Action should be taken to use the machine for manufacturing activities and action should be taken against the responsible officials.</p>
<p>(e) After the devastation of the Pulmudai shipyard by the 2004 tsunami disaster, the Kodbay shipyard was no longer in use. As a result, the tugs and barges on board had been in a state of disrepair for more than 16 years, but no action had been taken to transfer or dispose of the plant.</p>	<p>Currently, tug vessels and barges have been referred to the Valuation Department for assessment. Meanwhile, arrangements have been made to sell it at a public auction after the relevant valuations are done.</p>	<p>Action must be taken expeditiously to sell, transfer or dispose of the vessels.</p>
<p>(f) It was revealed that 04 vehicles which had been taken out of service for 3 years and those had not been repaired and put into operation.</p>	<p>Bids have been called for repairs.</p>	<p>The repairer should be done quickly and put to use.</p>

### 3.5 Delays in projects or capital work

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommen-dation</b> -----
<p>(a) Although licenses had been obtained for the mining of mineral sand in the 4.5 hectare deposit in the Thevikkallu area for a period of 10 years from 15 August 2018 to 15 August 2028, no action had been taken to commence mining activities by March 2021.</p>	<p>Although sand mining was carried out in the area from May to December 2017, the Road Development Authority instructed the plant to suspend the work due to the dilapidation of a bridge on the Trincomalee-Pulmudai main road. The bridge is currently under construction and is scheduled to commence within the next two weeks.</p>	<p>Action should be taken to start excavations.</p>

### 3.6 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Purchase of Wet High Intensity Magnetic Separator with a Control Panel Board machine valued at Rs.73,165,328 for the machinery section of the company the management does not make timely decisions during the import process, Postponement of Tender Grant till 12th February 2018, delay in opening of Letters of Credit (LC) till 12 August 2019 and the company had to bear Rs.11,660,234 exchange losses due to the depreciation of the rupee against the dollar during the period due to long delays such as failure to buy on time.	It was stated that the supplier could not supply the goods at those prices due to the delay in awarding the tender on court orders and the price had gone up by about 20 percent. As a result of negotiations with the foreign supplier, the supplier agreed to supply the goods at the price awarded by the tender. In addition to the 26 weeks that the letter of credit was received by them, another 8 weeks were required and the LC was opened upon agreement to grant it. The opening was made by the US dollar, and the exchange rate gain or loss due to the appreciation and depreciation of the rupee against the dollar was out of our control.	Purchases should be made expeditiously after the tender is awarded.
(b) About 5 JCBs, scrap metal, trailers, lorries, vehicle engines, spirals, tractors, vans, and other machine parts that had been discarded for many years were left unprotected at the factory premises and had not been disposed of.	Quotations have been called for the sale of scrap metal and other machine parts disposed from our company and arrangements are being made to sell them in the future.	Action must be taken immediately to dispose.
(c) In addition to the (white sand) stockpiles that are being removed from the machinery, the aforesaid stockpiles of sand had been piled up unsafely at various locations over large areas of the company for several years, and the land was blocked due to the failure to sell or remove the stockpiles.	The top management of the company has decided to suspend the sale of by-products without process and to sell them after reprocess.	Action should be taken to sell or remove sand stocks.
(d) The total weight of the M.V. Codyallity ship is about 7,763 MT and the amount of iron extracted from it is about 3,120 MT. Sixteen years have passed since 2005, but	As we do not own the stock of sand, the entire rights are with Asha Lanka Enterprises, a private company. The agency	Action should be taken to remove.

Asha Lanka institute failure to remove the ship as per the agreement has caused environmental damage as well as financial loss due to the shutdown of the Pulmudai Open Port. In 2014, Asha Lanka company had stockpiled part of its stock of ilmenite, which had been stored in the company premises unsafely for seven years without any action being taken to sell or dispose of it.

has also been instructed to take necessary steps to remove the sand as soon as possible. We have been informed that the removal of the remaining parts of the ship is ready to begin from this month.

### 3.7 Human Resource Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recomenda-tion</b> -----
<p>(a) One officer who holding the post of Administrative Officer since 2 December 1997, he was found guilty of 11 charges following a disciplinary inquiry and dismissed from 15 September 2017 from the service and had been appointed as the Deputy General Manager (HM1 -3) by the chairman for Pulmudai Machinery and on the decisions of the Board of Directors for the monthly allowances of Rs. 120,000 from 20 April 01 and 12 October 2020. The Company had paid Rs. 2,052,898 as allowances to the relevant officer from April 2020 to March 2021. Neither the Company nor the Ministry had taken action to rectify this misappropriation appointment and recover the payments made for it from the responsible officials.</p>	<p>With the announcement of a 2020 election and the Covid 19 epidemic situation, Unable to recruit a permanent officer, Mr. Anura Kumara has been appointed as Deputy General Manager (Administration and Human Resources) in accordance with the decision of the management to pay an allowance of Rs. 120,000 to the above post from the 1 of April 2020. Appointed</p>	<p>Action should be taken to correct the improper appointment.</p>
<p>(b) The officer who was appointed to the post of Personal Assistant to the Chairman without the approval of the Department of Management Services had been paid as an allowance of Rs. 646,749 from March 2020 to February 2021 and 500,000 for overtime, Rs. 60,000 for travel to Pulmudai Rs. 1000 per day and total Rs. 1,206,749. This post is not in the approved recruitment procedure and no action has been taken to recover the salaries and allowances paid for improper recruitment.</p>	<p>Due to the absence of an officer in the post of Secret Secretary to the Chairman, a person has been temporarily appointed on 02.03.2020 on the basis of assigning the Chairman as a personal assistant for that purpose. This appointment has been terminated with effect from 30.06.2021.</p>	<p>Action should be taken to correct the irregular appointment.</p>

(c) During the sampling of promotions to the company, the chairman of the company had changed the salary codes of the officers privately and paid the salaries without the approval of the Management Services Department, contrary to the recruitment and promotion procedures.	The new recruitment and promotion procedure was approved on 13.06.2013. Therefore, hierarchical internal promotions have been obtained in accordance with the old recruitment and promotion procedure which was in effect up to 12.06.2013 prior to that date.	Should not be deviate from the recruitment and promotion procedure.
(d) The post of Chief Analyst at the senior management level of the company has been vacant for 10 years, the post of Medical Officer for 5 years and the posts of Senior General Manager (Finance) and Senior General Manager (Human Resources) have been vacant since April 2019. Until now, the company has not been able to recruit permanent officers for these positions.	The two tasters who are currently in service are performing their duties in the laboratory.	Officers should be recruited expeditiously for key posts.
(e) Comparing the approved cadre and the actual cadre of the company as at 31 December 2020, a vacancy of 13 officers out of 07 posts in the head office was observed and an excess of 19 officers out of 03 posts and it was observed that there were 119 vacancies for 12 posts and a surplus of 20 officers for 4 posts at the Pulmudai plant.	With the approval of the Line Ministry, action can be taken to fill those vacancies in future. Excess employees are not recruited outside the approved number of employees.	Vacancies should be filled so that there is no overstaffing.
(f) Although the vacant post of General Manager should have been filled permanently from 2015 to implement the policies and decisions taken in relation to the production, administration, accounting and other functions of the organization as a whole, the officers had been recruited on a secondary basis for the relevant post.	The Managers have been appointed by the line Ministry on a secondary basis and on an acting basis to ensure the smooth running of the institution.	Action should be taken to recruit a permanent officer.

**4. Accountability and good governance**  
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**4.1 Internal Audit**  
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**Audit Observation**  
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**Comments of the Management**  
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**Recommendation**  
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(a) Although five officers, including two senior management level officers, were attached to the Internal Audit Unit, the adequate audit	Action will be taken to reduce this situation by 2021.	Act according to the audit plan.
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had not been done according to the audit plan.

(b) The Accounting Officer shall ensure that an effective internal control system for financial control is developed and maintained in accordance with Section 38 (e) of the Audit Act No. 19 of 2018 and the efficiency of the system should be reviewed from time to time and necessary changes should be made to keep the system running efficiently and the reviews were to be made in writing and a copy was to be submitted to the Auditor General, but there was no information that such a review had been made. Further, the internal audit reports had not been submitted to the Management Audit Department under Section 40 (4) of the Audit Act.

An overall system review is planned for 2021 and 2022 to cover the company's core activities.

Adequate audit should be carried out and act in accordance with the Audit Act.

#### 4.2 Budgetary Control

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommen-dation</b> -----
Actual sales had been decreased by Rs.3,964 million equivalent to 85 per cent when compared with the budgeted sales. Administrative expenditure had been saved Rs. 79 million equivalent to 31 per cent, while other public works expenditure had been spent Rs. 250 million equivalent to 78 per cent more than the budgeted amount. Accordingly, it was observed that the budget had not been used as an effective control factor due to significant variations in budgeted revenue and expenditure.	Covid 19 situation and although the tender was awarded in November 2020, the non-removal of the stock has led to a decline in revenue and it had been increased an increase in average expenses	Management must act in accordance with the budgeted goals to achieve the intended goals.