Mantai Salt Limited – 2018/2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of theMantai Salt Limited ("Company") for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income, statement of changes in equity and statement cash flow 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.

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 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Sized Entities.(SLFRS for SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statementssection of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for myqualified 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 Financial Reporting Standards for Small and Medium Sized Entities (SLFRS for SMEs) 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'sability 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 Companyor to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the company.

1.4 Audit Scope

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 skepticism 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 tothe 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 documentshave been properly and adequately designed from the point of view of the presentationof information to enable a continuous evaluation of the activities of the Company, andwhether such systems, procedures, books, records and other documents are in effectiveoperation;

- Whether the Companyhas complied with applicable written law, or other general or special directions issued by the governing body of the Company*;*

- Whether the Companyhas performed according to its powers, functions and duties; and

- Whether the resources of the Companyhad 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 Accounting Deficiencies

ii)The Company had recognized a government grant amounting to Rs.96,261,492 as property plant and equipment during the year under review. However, the Company had not calculated the deferred tax effect there on. Further it was observed a difference of Rs.2,536,902 in deferred tax calculation on retirement benefit obligation and property ,plant and equipment as at 31 March 2019.	Capital Allowances for the asset purchased under the government grant will be taken into calculation when submitting the final tax return. Further, Deferred tax deference of Rs.2,536,902 will adjusted in the 2019/2020 accounts.	Management should comply with the tax rule of Inland revenue department to avoid any non compliance issues in the future.
ii) It was observed that company incurred a cost of Rs.110,394 to purchase Quick Book accounting package during the year under review and shown the same as expenditure under Office equipment upkeep in the profit and loss accounts without considering the same as intangible asset in final accounts and had not depreciated. Further company website amounting to Rs. 23,500 has been identified as office equipment instead of intangible assets.	Payment for the Quick book accounting package of Rs. 110,304 will be accounted in the intangible assets in the following year.	Management should recognized assets as per the provisions in the paragraph 18.4 of SLFRS for SMEs.

iii) Even though the interest income as per the ledger for the year under review was Rs. 2,420,733 as per the audit calculations, it was Rs. 2,462,274. Therefore, It was observed an understatement of Rs. 41,541 in interest income for the year ended 31 March 2019 in the financial statements.	Difference of Rs.41,541 is due to miscalculation of number of days for the earned interest & it will be rectified in 2019/2020.	Interest income should be calculated for the relevant days and accounted.

Audit Issue	**Management Comment**	**Recommendation**
(i) There was a shortage of salt stock amounting to 1,243.4 metric tons which was equivalent to Rs.7, 012,838 and 797.7 metric tons equivalent to Rs.4,959,911Mannarsaltern as at 31 March 2018 and 2019 respectively. However, the Company had not taken actions to investigate the reasons for stock shortages and to adjust the stock shortage in the financial statements.	Soon after harvested salt are placed on the flat form it will be shaped by labors in the triangle beam and the weight will be calculated by using below scientific formula Wight = Value X Density Wight = (HXBXL) Destiny of the salt The weakness of this measurement is the density of the salt will vary subject to particle size of the salt in the heap. And throughout the period the highest of the heap will come down because of the pressure affect. Therefore this method also considered as rough methods.	Management should use the industry practice on valuation of inventory to maintain the accuracy in maintaining stocks.

1.5.2 Documntary Evidences not made available for Audit

Item Amount Evidence not available Rs.	Management Comment	Recommendation
Sufficient appropriate audit evidence was not made available for the audit to ensure the ownership of the land value of Rs. 42,900,000 shown in the financial statements as at 31 March 2019.	As per the saltern history all the salterns were under the National Salt corporation & transferred to Lanka Salt ltd. Salterns in Puttalam&Hambanthota are privatized in 1994, the Manthai salt ltd formed as a government own company in 2001 to take over the saltern in North province as a succeeder of Lanka Salt ltd. Since all salterns was being a state land, as a government property it was entered the land value at the accounts while it formed. Due to the production lapsed in 2012 the company did not apply for the lease permit with the divisional secretary to omit paying lease when the land not in use. The Mannarsaltern also comes under the above explanation. Meanwhile the company has applied to the lease permit & permit will be issued soon.	Management should take action to obtain proper and acceptable legal documents confirming ownership of the lands that were included under property, plant & equipment in the Financial Statement.

1.5.3 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Value Added Tax		
Value Added Tax payable amounting to Rs.1,408,071 , Nation Building Tax payable amounting to Rs.55,052 and Economic Service Charges payable amounting to Rs.121,626 had been understated as at 31 March 2019.	The over provision of Rs.1,408,071 will be adjusted in the 2019/20 accounts.	Management must be keen at the time of making provision to avoid over or understatement of Profit of the company.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
i) Paragraph 9.14.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.	The Company had failed to prepare Manual of Procurement by incorporating a chapter on Human Resource Management, providing rules and regulations on all matter relating to Management of Human Resources.	The company gradually in the process of developing all the necessary documents required for the institution.	Company should have a manual of procedure including human resources management procedures.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs. 35,176,712 and the corresponding net profit in the preceding year amounted to Rs. 27,789,256. Therefore an improvementamounting to Rs.7,387,456 of the financial result was observed. The main reason for the improvement is increase in revenue.

2.2.1 Trend Analysis of major Income and Expenditure items

a) The revenue for the year under review has increased by 85% compared to the preceding year. Simultaneously the cost of sales has increased by 127%. Although the revenue increases by 85%, the gross profit for the year under review has increased by only 30%.

b) Other operating income for the year under review has decreased by 15% compared to the preceding year. The main reason for the deterioration is due to the decreased in fixed deposit interest.

2.2.2 Ratio Analysis

a) The Gross Profit ratio of the company has been reduced from 43% to 30.27% when comparing with its corresponding year. In the meantime the Net Profit ratio has been reduced by 10.52% when comparing with its corresponding year.

b) Inventory turnover ratio of the company is 1.7 times in 2018/19. A low inventory turnover implies weak sales and excess inventory.

3. Operational Review

3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
As per section 4.2 of Government Procurement Guidelines in 2006, The Company had failed to prepare a Master Procurement Plan and Procurement Time Schedule for the procurement activities envisaged at least for a period of three years by including the procurement activities for the year under review in detail.	The company prepare annual procurement plan based on the corporate plan where minimum three year plan has been set out. In future it is consider keep master procurement plan separately from corporate plan.	Management must prepare the master Procurement plan to adhere the Procurement guideline.