Mantai Salt Limited – 2019/2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mantai Salt Limited ("Company") for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 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 2020, 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 Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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'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 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 document shave 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 on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
i) As per paragraph 17.21 of the Sri Lanka Accounting Standard for Small and Medium – sized Enterprises, when determining useful life of assets, the Company shall consider the expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvement in production. Contrary to that the Company had used 10 percent for computer equipment and vehicles without considering these factors. Further, Company had not taken action to evaluate the indications that may cast on the above mentioned facts and amend the span of life time of assets up to end of year under review as per paragraph 17.19 of SLFRS for SME. As a result, assets at a cost of Rs.3,890,513 were fully depreciated at the time of preparing financial statements are still used by the Company.	We are in the process of determining the useful life of the assets and the depreciation rates will be adjusted according to the SLFRS for SME.	Management should take action to evaluate the indications that may cast as per the standard and determine useful life of the assets to ensure the accuracy and completeness of the information in the financial statement.

ii) As per paragraph 17.33 of the Sri Lanka Accounting Standard For Small and Medium – sized Enterprises, the Company shall disclose effective date of the revaluation, detail of valuer, the carrying amounts recognized and revaluation surplus. Contrary to that the Company had not shown any details on the revaluation amount of Rs 2,400,000 shown under Capital and reserves.	The company does not have the information of revaluation details and the revaluation reserve of Rs. 2,400,000 is appearing in the balance sheet from the inception.	Management should pay attention to the matter and try to find out the origin of the revaluation surplus and relevant assets details and act accordingly.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
i) Even though in the financial statements as at 31 March 2020, included the value of land and written down value of building and structures of Mannar saltern, amounting to Rs.42,900,000 and Rs. 13,675,334 respectively had shown as assets of the Company year under review without get transferred the ownership of those assets to the Company.	As per the Salterns history all the Salterns were under the national Salt corporation and transferred to Lanka Salt Limited. Salterns in Puttalam and Hambanthotta are privatized in 1994 , the Mantai Salt Limited formed as a Government own Company in 2001 by Gazzete notification to take over the Salterns in Northern Province as a succeeder of Lanka Salt Limited. Since all Salterns was being a state land, as a Government property it was entered the land value at the accounts while it formed. The Mannar Saltern comes under the above explanation. Meanwhile the company has applied to the lease permit and 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
ii) Without get transferred, the ownership of the land of Elephant Pass saltern to the Company, a sum of Rs. 83,922,553 had been expended from 2016/17 to 2018/19 by the Company to construct buildings and renovation of saltern. Further, the cumulative government grant	The ownership of the land of Elephant pass also has the same explanation as above (i). Further we wish to state that in future financial statements we will identify separately the assets acquired under Government grant	Management should take action to obtain proper and acceptable legal documents confirming ownership of the lands that were included under property, plant &

of Rs. 96,261,491 had released as at 31 March 2020 for the rehabilitation of Elephant pass saltern. This grants had been used for constructing building, renovations of saltern and acquiring assets of Rs. 26,601,895, Rs. 57,320,658 and Rs. 12,338,938 respectively. However, the Company had not identified these assets under relevant category under fixed asset in the financial statements and depreciated accordingly. As a result, impairment of government grant under Noncurrent liabilities in the statement of the financial position had been understated by Rs.4,374,147 as at 31 March 2020.	and depreciated based on the useful estimated life of the assets	equipment in the Financial Statement. Further Management should identify all fixed assets purchased or constructed using government grand and depreciated according to company depreciation policy.
iii) Depreciation of the building of the year under review had been over stated by Rs. 1,534,553 due to the 10 percent depreciation rate had been used, instead of use the pre determined depreciation rate of 5 percent for calculation of depreciation of building in Mannar and Elephant pass saltern.	The over stated depreciation amount is Rs. 58,651 and over amortized amount is Rs. 1,475,902 totalling to Rs. 1,534,553. This error of over depreciation and amortization will be rectified in the future financial statements.	Management should apply correct rate of depreciation for building as per the company policy to ensure the accuracy and completeness of financial information.
iv) The difference of 1,307.36 MT of salt stock in Elephant Pass Salten, which was 8.6 percent of the stocks and approximately equivalent to the value of Rs. 5, 459,535 between physical verification report and book balance as at 31 March 2019 (allowable 1 percent as per Chairman's comments). This difference had been accumulated from year 2016 onwards. However, the Company had not taken actions to investigate the stock shortage and to adjust the same in the financial statements.	In Elephant pass Saltern 1307MT has been lost for the total of 14,757.23MT which is 8.85 % In this total the stock are comprised from year 2016, 2017, 2019 and 2020. While the stock being on long period, the probability for the shortage also high. Anyhow the management took all the measure to sell the stock and now almost all the stocks are cleared in 2022	Management should consider proper mechanism and use the industry practice on valuation of inventory to maintain the accuracy in maintaining stocks. And any difference within the period should be adjusted in the same period and avoid accumulation.

1.5.3 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per section 16 (2) (b) of Inland Revenue Act No. 24 of 2017, capital allowance can be deducted for depreciable assets owned or used by the Company at the end of year of assessment. Contrary to that the Company had not considered as capital allowances for computation of assessable income for the purchased assets using government grant of Rs.9,422,796 up to 31 March 2020. As a result, provision for Income tax had been over stated and the profit for the year under review had been understated by Rs. 263,838.	Capital allowances for the Assets purchased under Government grant has not been taken into consideration when provisioning of tax liability by oversight. But this will be taken into calculation when the final tax returns are submitted. This error will be rectified in the future provisioning of the tax expenses in the accounts	Management should comply with the tax rule of Inland revenue department to avoid any non compliance issues in the future.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs. 12,796,333 and the corresponding net profit in the preceding year amounted to Rs. 35,176,712. Therefore a deterioration of the financial result amounting to Rs.22, 380,379 comparing to the previous year was observed. The main reason for the deterioration was the reduction of income from 155,380,640 in the previous yea to Rs. 103,473,982 during the under review, due to reduction of sale price per MT and reduction of sales quantity by MT 3,110 comparing to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

	2020 Rs.	2019 Rs.	Differences	Percentage
Revenue	103,473,982	155,380,640	(51,906,658)	-33%
Cost of Sales	84,303,766	108,339,171	24,035,405	-22%
Gross profit	19,170,216	47,041,469	27,871,253	-59%
Other Operating Income	12,414,565	14,715,364	2,300,799	-16%

a) The revenue for the year under review has decreased by 33 percent compared to the preceding year. Simultaneously the cost of sales has decreased by 22 percent. Although the revenue decreases by 33 percent, the gross profit for the year under review has decrease by only 59 percent.

b) Other operating income for the year under review has decreased by 16 percent compared to the preceding year. The main reason for the deterioration is due to the decreased interest rate deposits and saving account.

2.3 Ratio Analysis

Ratios	2019/2020	2018/2019
Gross Profit Ratio	18.5	30
Net Profit Ratio	12.4	23
Inventory Turnover Ratio	1.17	1.7

a) The Gross Profit ratio of the company has been reduced from 30 percent to 18.5 percent when comparing with its corresponding year. In the meantime the Net Profit ratio has been reduced by 46 percent when comparing with its corresponding year.

b) Inventory turnover ratio of the company is 1.17 times in 2019/20 comparing to 1.7 in the previous period. A low inventory turnover implies weak sales and excess inventory.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had not taken steps to recover the Economic Service Charge remaining over two years amounted to Rs. 1,577,310. Further, Income tax provision amounting to Rs.673,493 had not been settle over 04 years, and withholding tax paid amounting to Rs.1,193,214 had not been recovered.	The Balances in the ledger accounts of Economic Service charge, income tax provision and withholding tax amounts are taken into account when calculating the net tax liability. The balances will be netted off in the coming financial years	Management should take immediate steps to recover over payment of Economic Service Charge and WHT and settle income tax.