

Transaction report of the North-Sea Limited - 2021/ 2022

The audit of the operational activities of the North-Sea Limited (“company”) for the year ended 31 March 2022 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 presented in Parliament in terms of article 154(6) of the constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

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

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 entity.

According to sub-section 16 (2) of the said Act, the annual financial statements in respect of every auditee entity, should be submitted by the Accounting Officer to the Auditor General along with the annual performance reports within such periods as may be provided by rules.

In terms of Sub-section 38 (1) (d) of the Act, the Accounting Officer should ensure the timely preparation and submission of annual and other financial statements and in addition he is required to submit annual reports to parliament pertaining to the auditee entity.

Nevertheless, the financial statements for the year ended 31 March 2022 approved by the Governing Board that should have been presented to the Auditor General within a period of 60 days after the end of the year of accounts in terms of Section 6.6 of Operational Manual for State Owned Enterprises issued with the Public Enterprises Circular, No 01/2021 dated 16 November 2021 had not been presented to the Audit even by the date of this report.

1.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non- compliance	Management Comment	Recommendation
Section 6.6 of the Operational Manual for State Owned Enterprises issued with Public Enterprises Circular No.01/2021 of 16 November 2021	The Financial Statements of the Company should be submitted to the Auditor General within 60 days after the closure of the accounting year, as per the Circular, the Company did not comply with the same.	Not responded	Financial Statements should be handed over to the Auditor General within sixty days after the closure of the financial year.
Section 13 (2) of Stamp Duty Act No. 43 of 1982,	Stamp duty, together with a certified statement of collections for the quarter ended 31 March 2022 had not been remitted to the Commissioner General of Inland Revenue even by 24 November 2022, the date of audit.	Not responded	Stamp duty should be remitted to the commissioner general quarterly within fifteen days of the end of each quarters together with a certified statement of collection.

Section 15 of the Employees Provident Fund Act No. 15 of 1958	<p>“The employer of an employee to whom this Act applies shall deduct and pay to the Fund the contribution for each month of such employee under this Act before the last day of the succeeding month from the earnings of such employee; and a contribution paid under this Section to the Fund by such employer on behalf of such employee shall be deemed to have been paid to the Fund by such employee.” In contrary to that, the contribution to Employees Provident Fund amounting Rs.37,507,750 pertaining to the period from July 2020 to March 2022 had not been settled by the Company even by 24 November 2022, the date of audit.</p>	Not responded	EPF should deduct and remit to the fund before the last days of the succeeding month from the earnings of such employers.
Section 16 (1) of the Employees Trust Fund Act No.46 of 1980	<p>“The employer of every employee to whom this Act applies shall, in respect of each month during which such employee is employed by such employer, be liable to pay in respect of such employee, to the Fund, on or before the last day of the succeeding month, a contribution of an amount equal to three per cent of the total earnings of such employee from his employment under such employer during this month.” In contrary to that, the contribution to the Employees Trust Fund amounting Rs.1,988,019 pertaining to the period from September 2021 to March 2022 had not been settled by the Company even by 24 November 2022, the date of audit.</p>	Not responded	ETF of each employee should be remitted to the fund on or before the last day of the succeeding month.

Section 18 (4) of the National Audit Act No. 19 of 2018	“An auditee entity shall settle the accounts for audit fees within thirty days from the date of invoice.” In contrary to that, the audit fee amounting Rs.1,979,100 which was relevance to the period from 2015/2016 to 2020/2021 had not been settled by the Company even by 24 November 2022, the date of audit.	Not responded	The North -sea limited should pay the audit fees within thirty days from date of invoice.
Section 50 (i) of Company Act No. 7 of 2007	Issue of Share, immediately following incorporation of a company under Section 5, the Company shall issue to each shareholder named in the application for incorporation the share to which that person is entitled. Even though the Company had issued shares, share certificates had not been issued to its shareholders as the Company incorporated in 2001 and re-registered under the Company Act.	Not responded	Share certificates should be issued to the shareholders.
National Procurement Agency Circular No.09 dated 01 March 2006.	A fully owned Government Company should follow the Procurement Manual (To be used along with Procurement Guidelines 2006 Goods & Works) at the time of purchasing goods and service to the Company. In contrary to that, the Company had purchased raw material of yarn amounting to Rs. 40,528,467 without following Procurement Guidelines.	Not responded	Management should follow the Procurement Guideline at the time of purchasing goods and service to the Company.

1.4 Non- compliance with Tax Regulations

Reference to Tax Regulations etc.	Non- compliance	Management Comment	Recommendation
Value Added Tax (VAT) Act No.14 of 2002	Value Added Tax (VAT) amounting Rs.182,799,880 had not been paid by the Company as at the end of the year 2021. Further, due to non-payment of VAT on timely basis, the Company had to pay a penalty of Rs.27,963,374. But, the Company had not taken step to settle the above amount even by 24 November 2022, the date of audit.	Not responded	Management should comply with relevant tax law to avoid any unnecessary penalty payments.
National Building Tax (NBT) Act No.9 of 2009	Amounting to Rs.28,580,611 had not been paid by the Company as at the end of the year 2022. Further, due to non-payment of NBT on timely basis, Company had to pay a penalty of Rs.4,713,899. But, the Company had not taken step to settle even by 24 November 2022, the date of audit.	Not responded	Management should comply with relevant tax law to avoid any unnecessary penalty payments.

2. Financial Review for the Previous year.

2.1 Trend Analysis of major Income and Expenditure items for the Previous year and Before Previous year.

Item	2020/2021 Rs.	2019/2020 Rs.	Increase/ (Decrease) Rs.	Percentage Increase (Decrease) %
Gross Turnover	243,062,940	260,508,899	(17,445,959)	(6.69)
Manufacturing Labour	90,947,851	89,694,050	1,253,801	1.39
Manufacturing Overhead	75,749,621	68,705,237	7,044,384	10.25
Commissions	3,128,088	4,433,304	(1,305,216)	(29.44)
Sales Promotion	-	79,763	(79,763)	(100.00)
Directors Allowances	2,238,009	1,811,456	426,553	23.54
Legal Fees	699,000	289,800	409,200	141.20
Audit Committee Expenses	-	27,000	(27,000)	(100.00)
Rent	2,000,000	600,000	1,400,000	233.33
Surcharges	27,727	17,156	10,571	61.61

2.2 The summary of the Financial Position for the Previous year and Before Previous Year.

	2020/2021	2019/2020
	Rs.	Rs.
Profit/Loss	(89,278,872)	(118,160,662)
Non-current Assets	250,938,389	284,221,300
Current Assets	89,194,058	82,457,994
Trade and Other Receivables	21,474,469	17,496,304
Cash and Cash Equivalents	1,132,004	1,591,248
Non-current Liability	482,478,567	469,688,332
Current Liability	117,410,416	73,312,603
Long Term Borrowings	3,000,000	3,000,000
Creditors	68,299,901	64,177,709
Other Payables	247,197,644	248,819,172
L/C Loan Accounts	54,828,182	56,399,310
SLS Bank Loan	48,304,972	10,000,000
Employee Benefits	32,359,007	42,786,984
Salary Loan	28,785,649	-
Accounts Payable	58,974,056	44,054,762

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
It was observed that the Company had taken the building premises from the National Chamber of Commerce on lease and lease agreement was expired on 28 February 2022. The Company had not taken steps to renew/ extend the same.	Not responded	The lease agreement should be renewed or extended.
Even though the Company had constructed buildings in the Government own lands in Weerawila and Jaffna where factories are operating, the ownership of those lands had not been transferred to the name of the Company or lease the same to operate without any impediments.	Not responded	Management should take actions to obtain the ownership of the land to the name of Company to avoid any legal issue arise in the future and protect the investment of building and to continue the business in the same premises.

**3.2 Human Resources Management
Audit Observation**

Proposed cadre was submitted by the Company through Ministry of Fisheries for obtaining approval from the Department of Management Services as per the letter dated 25 March 2022. Accordingly, the Department of Management Services had requested a detailed report including an annual report submitted to the Parliament in the last 05 years, the programs which are going to be implemented by the Company within next 05 years, production, sales, revenue received and implemented programs and their progress within last 05 years and a strategic plan from the Company by letter No. DMS/1747 dated 18 May 2022. But the Company had not submitted even by 24 November 2022, the date of audit.

**Management
Comment**

Not responded

Recommendation

The Company must submit the requested information to the Department of Management Services to get approved the cadre.