Mantai Salt Limited – 2020/ 2021

---

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 2021 comprising the statement of financial position as at 31 March 2021 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 2021, 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 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 on the preparation of Financial Statements

1.5.1. Internal control over the presentation of financial statements

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.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
a)	As per paragraph 7.2 of the Sri Lanka Accounting Standard for Small and Medium – sized Enterprises, an investment has a short-term maturity of three months or less should be considered as cash and cash equalant. Contrary that a sum of Rs.10,427,739 investment in fixed deposits which were matured within three months had been considered as non-current assets.	By oversight Fixed deposit of less than 3 months maturity is shown under noncurrent assets. This will be rectified in 31 March 2022.	Investment should be classified as the criteria mentioned in the SLFRS for SME s
b)	As per paragraph 7.8 of the Sri Lanka accounting Standard for Small and Medium – sized Enterprises, when preparing the cash flow statement under the indirect method non-cash items should be adjusted. However, the Company had considered total interest income amounting to Rs. 4,874,173 instead of recognizing interest income received amounting to Rs. 1,365,944 as at 31 March 2021.	In March 2022 Financial statement Actual interest income received will be recorded.	Cash flow statement should be prepared on cash basis as per the Accounting Standards for SME s

	Audit Issue	Management Comment	Recommendation
c)	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 Company had used 10 percent depreciation rate for all the property plant and equipments excluding buildings. 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 SMEs. Further assets at a cost of Rs. 4,848,895 were fully depreciated at the time of preparing financial statements but still used by the Company had not been applied the requirement of the standard.	The company estimated the useful life of the majority of the plant and machinery and equipment to be 10 years. But some assets are continued to be used beyond the estimated useful life of 10 years, but it is not practical for us to periodically estimate the use full life of the assets since the assets are operating in a saltern environment also it needed of service of an expert to carry out the estimation which is costly for this business entity. We are in the process of determining the useful life of the assets and depreciation rates will be adjusted as per SLFRS for SME.	As the nature of the industry determining the useful life of assets annually is very important. Hence management should take action to adhere to the standard.
d)	As per paragraph 17.33 of the Sri Lanka Accounting Standard for Small and Medium – sized Enterprise's if items of property, plant and equipment's were stated at relevant amounts, 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 about the revaluation amount for 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.	Every balance sheet item should be confirmed by evidence, if not management should take suitable actions to remove those balances from financial statements.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
a)	In a sample audit test, it was revealed that assets aggregating at a cost of Rs. 6,828,395 had not been included in the financial statements as per the board of survey reports of Elephant pass Saltern as at 31 March 2021	Assets purchased by the Ministry of Small scale industries handed over to Mantai Salt Ltd. Written down value of such assets as 31 March 2022 is Rs.	Management should take action to reconcile the assets schedules with physical verification report and should take suitable action for the differences

		2,143,509. Since the details were with the previous ministry, we were unable to take it to our books of account. Action will be taken to recognize the unrecorded assets by valuing them by a suitable valuer.	when preparing financial statements.
b)	Even though, the value of land and written down value of building and structures of Mannar and Elephant Pass Salterns, amounting to Rs.42,900,000 and Rs. 30,593,166 had been shown under the non-current assets in the financial statements as at 31 March 2021, the ownership of the land had not been transferred to the name of the Company.	All the Salterns were under the national Salt corporation and transferred to Lanka Salt Limited. Mantai Salt Limited formed as a Government own Company in 2001 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. 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.
c)	Depreciation of the building of the year under review had been over stated by Rs.1,489,485 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	This error of over depreciation and amortization will be rectified in the future financial statement	Management should apply correct rate of depreciation for building as per the company policy to ensure the accuracy and completeness of financial information.
d)	The difference of 1126 MT of salt stock in Elephant Pass Salten, which represent 24 percent of the closing stocks and approximately having value of Rs.7, 741,250 and 281 MT of salt stock in Mannar Salten, which represent 22 percent of the closing stocks and approximately having value of Rs. 1,931,875 were observed between physical verification reports and book balances as at 31 March	In Elephantpass Saltern 1,126MT variation is mainly due to Stock being held for a long period time and measurement differences. Book balance is taken from tractor load of 2.3MT per load and the Physical measurement by measuring length breath and height of the heap by using measuring	Management should take action to reconcile the book value of stock with the stock verification reports and take suitable action for differences when preparing financial statements.

	2021. However, the Company had not rectified the difference even though the same issue prevails in preceding years too.	tape. Both method are rough measurements and we are calculating the actual weight of salt at the point of stock removal through the weigh bridge. As per the sales record there are no shortages. In Mannar 280.62MT variation is mainly due to Salt wash out of 139 MT due to Purevi cyclone which hit Mannar saltern in December 2020. The management took all the measure to sell the stock and now almost all the stocks are cleared in 2022.	
e)	As per the stock record stock sold during the year under review was MT 24,590 and as per the sales record, stock sold during the year under review was MT 23,508. Hence, a difference of sold salt stock of 1,082MT, approximate value of Rs. 7,439,357 was observed between stock records and sales record and reasons for the difference were not observed.	The difference between the sales record and stock record is much lower than stated which will be rectified in the next financial year.	Management should reconcile stock sold as per the stock records and sales records considering the book balance instead of physical balance to identify any major difference and steps to be taken to investigate the difference to avoid any malpractice in maintaining stocks.
f)	Expenditure Rs.136,000 incurred for excavation work at Elephant Pass Saltern for laying water pumps had been included under production cost instead of accounting as maintenance expenditure. Hence, Production cost at Elephant Pass saltern had been overstated and administration expenditure had been understated by similar amount.	The expenditure of Rs. 136,000 was for laying water pipes for the supply of water for the purpose of saltern reduction. Therefore it has been taken to production cost and not to administration expenses.	Management should Follow the logical and accepted base to categories expenses.

1.5.4 Accounting Policies

Audit Issue	Management Comment	Recommendation
The cumulative government grant received as at 31 March 2020 for the rehabilitation of Elephant pass saltern was Rs.96,261,491. This grants had been used for constructing building, renovation of saltern and procuring of assets amounting to Rs.29,518,037 , Rs.57,320,658 and Rs.9,422,796 respectively. However, the Company had not identified these assets separately under relevant categories in the financial statements and shows cumulated figures as Elephant pass saltern rehabilitation and depreciated at the rate of 10 percent annually. As a result, accumulated depreciation of the building as at 31 March 2021 had been overstated by Rs.5,903,607.	In future financial statements we will identify separately the assets acquired under Government grant and depreciated based on the useful estimated life of the assets.	Management should identify all assets purchased and constructed by using government grants and depreciate over its useful life based on the company depreciation policy and introduce the policy for capitalization of saltern.

1.5.5 Non -compliance with Tax Regulations

	Audit Issue	Management Comment	Recommendation
a)	As per section 11 (1) of Inland Revenue Act No. 24 of 2017, In calculating a person's income and expenses to the extent they are incurred by the person during the year and in the production of income from business or investment, shall be deducted. Contrary to that the Company had not deducted gratuity payment of Rs. 609,015 as at 31 March 2021. Hence, adjusted business profit and taxable income had been overstated by similar amount and the income tax for the year under review had been overstated by Rs. 85,262.	Calculation of tax liability is done for the purpose of provisioning of tax in the accounts and by oversight this allowable expenses of Gratuity payment was not considered when provisioning for tax expenses. 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.
b)	As per section 16 (2) (b) of Inland Revenue Act No. 24 of 2017, the capital allowance can be deducted for depreciable assets owned or used by the Company at the end of year of assessment. Contrary to that though the Company had purchased assets	Capital allowances for the Assets purchased under Government grant has not been taken into consideration when provisioning of tax liability	Management should comply with the tax rule of Inland revenue department to avoid any non compliance issues in

	using government grant of Rs. 9,422,796 from the year 2016/17 to 2018/19. However, these assets value had not been considered for computation of assessable income as capital allowances. Hence assessable income had been over stated by Rs. 1,884,559, As a result, the provision for Income tax had been over stated and the profit for the year under review had been understated by Rs. 263,838.	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	the future.
c)	As per the tax guide for small and medium enterprises, tax rates to be applied on gain and profit from the business was 14 percent and other than business income was 24 percent for the year of assessment 2020/2021. However, the Company had applied 28 percent instead of 24 percent for other income (Interest income from fixed deposits and saving accounts). Hence, the income tax provision for the year under review had been overstated by Rs.253,780 and profit for the year under review was understated by similar amount.	By oversight tax rate of 28 percent has been applied for provision of income tax on Interest income. This over provision will be adjusted when the tax returns being submitted.	Management should ensure that correct/updated tax rate have been followed when calculating relevant taxes.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Treasury Fund receivable for Elephant Pass Saltern Project Rs. 811,706 had remained over 03 years without being collected.	Due to financial constraints of the treasury, Rs. 811,706 for Elephant Pass Saltern project could not be collected.	Management should take immediate steps to collect receivable from treasury to avoid any default of payment and becoming bad debt.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Company registration fee amounting to Rs. 100,000 had remained over 06 years without being settled under the trade and other payables.	Company registration fees of Rs. 100,000 which is due to over provisioning will be written back.	Management should take steps to rectify the issue of over provisioning and show accurate and updated financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. PED 12 of 02 June 2003 Chapter 6.5.1	The annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year with copies to the line Ministry and the Department of Public Enterprises, General Treasury. However, the Company had submitted the financial statements for the year ended 31 March 2021 on 4th October 2021 by delaying over 4 months.	Draft accounts got delayed due to COVID lockdowns.	It is responsible of the management to ensure that financial statement are submitted on due date.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs. 60,170,921 and the corresponding net profit in the preceding year amounted to Rs. 12,796,333. Therefore a improvement of the financial result amounting to Rs. 47,374,586 comparing to the previous year was observed. The main reason for the improvement was the increase of income from 103,473,982 in the previous year to Rs. 201,568,231 during the under review, due to increase of average sale price per MT and increase of sales quantity by MT 10,445 comparing to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

	2021 Rs.	2020 Rs.	Difference	Percentage
Revenue	201,568,231	103,473,982	98,094,249	95
Cost of Sales	129,529,120	84,303,766	45,225,354	54
Gross Profit	72,039,111	19,170,216	52,868,895	276
Other Operating Income	16,635,817	12,414,565	4,221,252	34
Building Maintenance	656,533	301,879	354,654	117
Staff Welfare	171,835	34,884	136,951	393
Office Equipment Upkeep	386,988	118,915	268,073	225

a) The revenue for the year under review has increased by 95 percent compared to the preceding year. Simultaneously the cost of sales has increased by 54 percent. Although the revenue increased by 95 percent, the gross profit for the year under review has increased by 276 percent.

b) Other operating income for the year under review has increased by 34 percent compared to the preceding year. The main reason for the improvement is the company invested in fixed deposit amounting to Rs. 136 million during the year under review.

c) Building maintenance expenses for the year under review increased by 117 percent compare to proceeding year and the main reason for the escalation was due to renovation of bathrooms, construction of guard walls and quarters maintenance.

d) Staff welfare expenses for the year was increased by 393 percent and office equipment upkeep also increased by 225 percent compare to previous year, these were due to purchases of Covid-19 prevention items such as Face Mask, Sanitizers for staffs and repair charges incurred for the AC , photopier , and laptop respectively.

2.3 Ratio Analysis

Ratios	2020/2021	2019/2020
Gross Profit Ratio	35.7	18.5
Net Profit Ratio	29.9	12.4
Inventory Turnover Ratio	1.97	1.17

a) The Gross Profit ratio of the company has been increased from 18.5 percent to 35.7 percent when comparing with its corresponding year. In the meantime the Net Profit ratio has been increased by 141 percent when comparing with its corresponding year.

b) Inventory turnover ratio of the company is 1.97 times in 2020/21 comparing to 1.17 in the previous period. A higher inventory turnover implies higher sales and lower inventory.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had not recovered Economic Service Charges remaining over 03 years amounting to Rs. 1,577,310, withholding tax paid amounting to Rs.1,193,214 and Income tax payable amounting to Rs.673,493 had not been settled over 05 years.	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 year.	Management should take steps to recover the receivable as soon as possible.

b)	As per the objective no 01 of memorandum of association, the Company should be succeed and carry on the business conducted by Lanka Salt Ltd in the Northern Province. However, the Company had not identified those businesses and step had not been taken to resume those businesses. Further, as per the Cabinet Paper submitted to the cabinet of ministers, in 2001, it was proposed to initially operates the Manner Salteren and then follow it up by the Chemmani and Araly Salterns. Finally, it was planned to recommence operations in the Kurinjantivu and Elephant Pass Salterns. However, only Mannar and Elephant Pass Salterns have been commenced their operations only by 31 March 2021 and the Chammani land had been handed over to divisional Secretary due to irrigation department constructed a rain water harvesting scheme and Aralay land had utilised for damp garbage by the divisional Secretary.	The operation in Chemmani saltern was abandoned due to the following reasons 1-The farmers around the area was against the operation of the saltern due the salt water is affecting the cultivation of the paddy. 2-Irrigation department constructed a rain water harvesting scheme beside the saltern lagoon, which led to the reduction of salinity in the sea water. Due to this the Chemmani land was handed back to the divisional secretary. Even though there was a proposal to operate a saltern in Araly , The company was not given the land and subsequently it was utlized to dump garbage by the divisional secretary. Kurinjantivu land could not be renovated due to the limitation of funds of the company and assistance from treasury was sought but it was also turned down. In 2018 a public private partnership (PPP) was initiated to renovate the saltern but due to lack of fund commitment from the prospective bidders it was cancled. A fresh bid was called in 2021 for the PPP and it is finalization stage for awarding.	Management should take steps to comply with the objective of memorandum of association.