

Manthai salt Limited – 2016/2017

The audit of the financial statements of the Manthai salt Limited (“the Company”) for the year ended 31 March 2017 comprising the statements of financial position as at 31 March 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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. My comments and observations which I consider should be furnished to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka on the operations of the company for the year under review appear in this report.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for qualified opinion

- (a) The value of land amounting to Rs.12,100,000 which was not owned by the Company had been shown in the financial statements under the Chemmani Factory and the

Company had failed to provide any documentary evidence to prove the ownership of this land.

- (b) Capital government grant amounting to Rs.5,798,042 incurred during the year under review to develop a Salt Field (Elephantpass Salter) had been recognized as recurrent expenditure instead of being capitalized for the year under review.
- (c) The Company had recognized its interest income on cash basis contrary to Section 2.36 of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs). Therefore, the interest income for the year under review and interest receivables as at 31 March 2017 had been understated by Rs. 1,928,419.
- (d) Capital works amounting to Rs.51,242,812 executed by the Ministry of Industry and Commerce for the renovation of a Salt Field (Elephantpass Salter) of which the ownership of the land had not been transferred to the company had not been brought to the financial statements of the year under review.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities. (SLFRS for SMEs)

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 07 of 2007, I state the followings.

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Non –compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instance of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to laws, Rules, Regulations and Management Decisions

Non-compliance

Code of Best Practice on Corporate Governance Published in 2017

schedule - 1

A sum of Rs.1,170,450 had been paid as Salary & other allowances for the Period from November 2016 to December 2017 to a Director who has been functioned as Executive director even though he did not participated to Board Meetings continuously and further he has not contributed any value addition to the company.

3. Financial Review

3.1 Financial Result

According to the financial statements presented for audit the operation of the company for the year ended 31 March 2017 had resulted a pre-tax net profit of Rs.38,385,184 as compared with the corresponding pre-tax net profit of Rs.807,778 for the preceding year indicating an improvement of Rs. 37,577,406 in financial result of the year under review. Increase in sales by Rs. 31,503,573 and other income by Rs. 2,719,193 during the year under review had mainly affected to this improvement.

3.2 Ratio Analysis

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- a) Return of Capital Employee (ROCE) for the year under review had increased by 25.17 per cent when compared with the preceding year.
 - b) Current assets ratio for the year under review had increased from 2.14 per cent to 3.98 per cent compared with the preceding year and quick asset ratio had increased by 1.64 per cent to 1.89 per cent.

4. Operational Review

4.1 Management Activities

The following observations are made.

- (a) The budgeted salt production of the company and the estimated revenue there on for the year ended 31 March 2017, were 5,500 metric tons and Rs.143,300,000 respectively However the company had achieved only 60 per cent of its targeted revenue by produced 3,336 of metric tons and derived actual sales revenue was Rs.93,405,977 which represent 65 per cent of budgeted sales revenue.

- (b) The company had changed its sales price of salt from time to time without having a proper basis such as a market research and without considering its sales targets. However the company had changed its prices in seven times for the period from 14 September 2016 to 28 March 2018 from Rs.29,075 per metric ton to Rs. 9,000 per metric ton. Nevertheless actions had not been taken to sale an adequate amount of production for the decided price. When analyzing the details of the production prevailed at the point of time making decision of the price, a loss of Rs.122,930,841 and Rs. 17,623,462 had occurred in Manner and Elephantpass salterns respectively during the said period.

4.2 Procurement Management

The company had not followed a proper procurement procedure for obtaining security service since the year 2016 and a sum of Rs. 1,424,018 had been paid for the period of 18 April 2017 to 14 February 2018. Further actions had not been taken to enter in to an agreement with the contractor and quotation had not been called for security service in a proper way.

5. Accountability and Good Governance

5.1 Audit and Management committee meeting

As per the Management Audit Circular No DMA/2009 (1) dated 9 June 2009 amended by the Circular No DMA/Cir-edit /2016 dated 28 January 2016 at least 06 number of audit management committee meetings should be conducted per year. However only 04 Audit and Management Committee Meetings had been held by the company during the year under review.

5.2 Internal Audit

Internal audit programmes had not been carried out as covering as the entire company for the year under review in order to review internal control of all activities of the company.

6. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the attention of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Control

Observations

(i) Store and sales of salt production

A proper methodology had not been followed to manage sales and store of the production.

(ii) Financial Control

A proper controlling procedure had not been followed for withdrawing fixed deposit and manage cash flows.