

## **Northsea Limited – 2016/2017**

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The audit of the financial statements of the Northsea 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 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 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**

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The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal controls 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**

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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 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

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- (a) The Company had obtained Rs.10,000,000 from the Ministry of Rehabilitation, Resettlement and Hindu Religious Affairs as advance for producing and supplying the Fishing nets to the Ministry under livelihood assistance programme implemented by the Government Institutions. This amount had been accounted as other income, instead of being accounted as advance. As a result. the profit of the Company for the year under review had been overstated by similar amount.
- (b) As per the agreement entered into between landlord and Company, rental for the Head Office building of the Company was Rs. 291,887 per month. However, the Company had paid only Rs.182,931 as a part payment since May 2016 to January 2017. However, no provision had been made for the outstanding rental of Rs.991,178 in the financial statements for the year under review. Further, the building rent Rs. 253,750 for the month of March 2017 had not been recognized as expenditure in the financial statements. Hence, the profit for the year under review had been overstated by Rs.1,244,928.
- (c) A sum of Rs. 2,953,585 had been shown under the other receivable as prior year adjustments without being made proper adjustments in the accounts. Further, no evidence was made available for audit to verify the accuracy of the said balance.
- (d) Although an amount of Rs. 40,661 had been shown as cash balance in the financial statements since the year 2015, such cash balance was not made available for physical verification.
- (e) The accounting policy including methods, nature and extent of government grants recognized in the financial statements had not been disclosed in terms of paragraph 39 of the Sri Lanka Accounting Standard 20. Further, Plant and Machinery to the value of Rs.99,968,373 purchased during the year under review by utilizing the government grant had been fully amortized without considering the useful economic lifetime of those assets.
- (f) A suspense account balance of Rs.1,303,834 had been continuously shown in the financial statements since 2015 without being taken actions to clear this account.
- (g) Detailed schedules in respect of depreciation of fixed assets amounting to Rs.19,123,712 as at 31 March 2017 had not been submitted to audit.

## **2. Financial Statement**

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### **2.1 Qualified Opinion**

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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.

### **2.2 Report on Other and Regulatory Requirements**

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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 :
  - Except for the matters described in the paragraph 2.2 of this report, 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.
  - Even though the Company's net assets had reached to a negative balance of Rs. 22,094,579 as at the end of the year under review, no action had been taken by the Company to conduct Extraordinary General Meeting in terms of Section 220 of the Companies Act, No. 07 of 2007.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Fourteen receivable balances aggregating Rs.4,072,034 were remained outstanding for more than one year without being recovered even as at the end of the year under review.
- (b) No action had been taken to settle two loan balances aggregating Rs.3,000,000 obtained from Government institutions.
- (c) Seven creditors aggregating Rs.17,197,037 had remained outstanding over a period from 03 years to 11 years.

## 2.4 Non – compliance with Laws, Rules, Regulations and Management Decision, etc.

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

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
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(a) Section 21 (1) and 67 (f) of the value added tax act No.14 of 2002.	A sum of Rs.116,336,281 had been shown in the financial statements as payable for VAT due to non – settlement of VAT on due dates.  No action had been taken to settle the penalty of Rs.27,963,374 which had been brought forward over three years.
(b) Section 6 of the Economic Service Charge (ESC) Act No. 13 of 2006	Action had not been taken to settle the Economic Service Charges amounting Rs.3,143,356 which had been paid in advance over two years.  Penalty for Economic Service Charge amounting to Rs.1,696,906 which had not been settled even during the year under review.
(c) Section 04 and 08 of Nation Building Tax Act No. 09 of 2009	(i) A sum of Rs.18,977,155 brought forward as payable NBT over two years had not been paid even in the year under review.  (ii) NBT penalty of Rs.4,713,899 had been shown in the books of accounts without being settled over two year.

## 3. Financial Review

### 3.1 Financial Results

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According to the financial statements presented, the operations of the Company had resulted in a net loss of Rs.61,111,357 for the year under review as compared with the corresponding net loss of Rs.77,113,312 for the preceding year, indicating an increase of Rs.16,001,955 in the financial result. Increase of other income by Rs.14,557,252 and decrease of administrative expenses by Rs.1,962,558 had mainly affected to the above improvement.

Further current liabilities of the Company had exceeded the current assets by Rs.180,827,606 mean while unusual items such as prior year adjustments amounting to Rs.2,953,585 and suspense account balance of Rs.1,303,834 had been included in the current assets. As a result the Company had to face a severe liquidity problem to settle its current liability.

### 3.2 Analytical Financial Review

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The following observations are made.

- (a) Revenue for the year under review had improved by 14 per cent as compared with the previous year.
- (b) The long term liability had increased from Rs.69.548 million in the preceding year to Rs.112.13 million in the year under review.
- (c) Negative gross profit ratio of the Company has fairly improved from 24 per cent in the preceding year to 19 per cent during the year under review. However the Company had failed to recover its cost of sales from its total revenue.

## 4. Accountability and Good Governance

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### 4.1 Presentation of financial statements

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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements together with the draft annual report should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements for the year under review had been presented to audit on 23 April 2018.

### 4.2 Internal Audit

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Internal audit had not been carried out to ensure efficient operational of the Internal Control System of the Company and Factories.

### 4.3 Audit and Management Committee meeting

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No Audit Committee meeting had been held by the Company during the year under review in terms of Department of Management Audit Circular No. DMA/2009/(1) dated 09 June 2009 amended by the Circular No. DMA/CIR-EDIT/2016 dated 28 January 2016.

## 5. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice 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

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#### Observations

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| (i) Control over Debtors and Creditors | Long outstanding balances of debtors and Creditors                     |
| (ii) Financial Control                 | Existence of un-cleared suspense accounts balances over several years. |
| (iii) Maintenance of General Ledger    | No proper control over the Accounting System.                          |