Northsea Limited – 2018/2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Northsea Limited for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 Accounting Standards 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 Observation on the preparation of Financial Statements

Internal Control over the preparation 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.

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Government grants shall be recognized in profit or loss on a systematic basis but company has amortized government grant of Rs.103, 500,000 for the year under review without considering lifetime of related assets or any other systematic basis. Further company has not complied with disclosure requirements of LKAS 20.	The Accounting Standard LKAS 20 Para 17 says, Grant is usually recognized in the Profit or Loss over the period in which the assets are used. But, it is not compulsory that it should be amortized over the life of the assets. The details of Opening Balance adjustment were submitted to Audit. It arose due to the clearing of Suspense Accounts and certain liabilities, brought forward from previous year, which were unjustified and not actually payables.	Government grants should be amortized over the life time of the related assets or any other systematic basis.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
As per financial statement, a sum of Rs. 2,896,662 relevant to 12 items of receivables had remained without being recovered for over 3 years, and a sum of Rs.3,143,356 relating to a debtor had remained with unsettled for over 2 years. Further, trade receivables amounting to Rs. 1,234,000 had not been recovered and remained unsettled for over 4 years.	Action is being taken to recover the dues of Rs.1,234,000 from Malba Ropes (Pvt) Ltd. A Letter of demand has been sent. The company has provided an allowance for impairment of Rs.2,186,577 and is hoping to collect the balance dues from the Debtors.	Company should take necessary action for recovery of receivables.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
The management had not taken proper actions to settle creditors and other payables. As a result, a sum of Rs.46,800,541 had been remained without being settled for over 4 years as at 31 March 2019.	The Long term and short term Creditors and other payables have not been settled due to lack of funds.	Company should take necessary action for settled of outstanding payables.

1.7 Non -compliance with Tax Regulation

Audit Issue	Management Comment	Recommendation
Proper actions had not been taken by the Company to settle the statutory payments such as NBT, VAT & ESC. As a result, aggregating outstanding unsettled statutory balance over one year as at the year as at the end of the year under review were R.196,822,641. Further the penalty imposed on non-payment of NBT and VAT in time were Rs.4,173,899 and Rs.27,963,374 respectively as at the end of year under review	The commissioner general of inland revenue has been requested to consider waiving the NBT and VAT penalties. The prepaid ESC is originating from the year 2011/12. The reason is the payment of ESC in advance, which has to be set off against the ESC payable. Action is being taken to settle the statutory payments.	Company should settled statutory payments on time.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to loss of Rs.21,964,341 and the corresponding profit in the preceding year amounted to Rs.5,369,442. Therefore a deterioration amounting to Rs. 27,333,783 in the financial result was observed. The reasons for the deterioration are increase of cost of goods sold and increase of actuarial loss on gratuity.

2.2 Ratio Analysis

Current Assets Ratio for the year under review would be 1:0.42 and with comparing previous year it would be 1:0.50. Further, Quick Asset Ratio of the year under review would be 1:0.09 and with comparing previous year it would be 1:0.08. This indicates that liquidity problem of the company.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	**Management Comment**	**Recommendation**
a)	Even though 22 invoiced to the value of Rs.10,455,390 has been issued on 2nd & 3rd weeks of December 2017, goods have delivered to the customers after 03 to 06 months.	Management comment had not been given.	Company should take action for promptly delivered of goods after invoicing.
b)	Without obtaining the required approval and certification from relevant authority, a sum of Rs.140,203 had been paid to suppliers by the Gurunagar factory.	Management comment had not been given.	Before the payment had been made relevant approval and certification should be obtained
c)	First copy of the vehicle running chart had not been submitted to audit since April 2016.	We were unaware that we have to send it to audit office.	Company should comply with relevant financial regulation.