

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Northsea Limited (Company) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 and statement of comprehensive income, statement of changes in equity and the 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 reported 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards

1.2 Basis for Qualified Opinion

My opinion is qualified based on 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 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 determines 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 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 Scope of Audit

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 judgement and maintain professional scepticism 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 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 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 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 the financial statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comments of management	the Recommendation
(a)	Sri Lanka Accounting Standard No.01		
(i)	The operating losses of Rs.10,897,711, Rs.118,160,662, Rs.89,278,872 and Rs.112,074,881 had been shown in the company in the years 2018/2019, 2019/2020, 2020/2021 and 2021/2022 respectively and the cumulative profit was Rs.415,359,594 as at 31 March 2022. Similarly, the minus value was Rs.98,934,545 after deducting the current liabilities from the current assets and the net assets was a minus value Rs. 390,454,252. As per paragraph No.26 of the standard, it can be concluded that it is appropriate the going concern basis without a detailed analysis if there are adequate profitable operational history and basic resources in the standard entity and an	As compared with 2021/2022, the loss in 2021/2022 had increased as compared with the year 2020/2021 due to increase of the other revenue by Rs.9,222,534 in 2020/2021. Furthermore, though the actuarial profit is Rs. 9,826,259 in 2020/2021, it is a loss of Rs.1,377,780 in 2021/2022. The closing stock was Rs.22,295,326 in 2020/2021 and it was Rs.9,493,836 in the year under review. Therefore, there was a huge loss of Rs.113,452,660 and the cumulative loss was Rs.415,359,594 in 2021/2022.	When there is an uncertainty available in the preparation of the financial statements, an assessment should be carried out whether the going concern is appropriate and it should be disclosed in the financial statements.

assessment should be carried out whether the going concern basis is appropriate at other occasions. However, an assessment on going concern had not been carried out by the company and no action had been taken to disclose in the financial statements also.

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| (ii) | Even though the assets and liabilities or income and expenditure should not be set-off except as required or permitted by the standard by an entity as per the paragraph 32 of the standard, a balance of Rs.2,101,137 had been mentioned as trade receivable balance in the statement of financial position by setting-off a balance of Rs.6,046,111 payable to Cey-Nor Foundation by company and a balance of Rs.8,147,248 receivable to the company not in compliance with that. | The loan and interest balances mentioned in the audit report agree with the values mentioned in the financial statements. | The receivable and payable balances in contrary to the provisions of the standard should be set-off. |
| (iii) | The trade and other balance of Rs.310, 319,231 payable by the company within 12 months after the accounting period in not compliance with the paragraph 69(d) of the standard had been indicated as the non-current liabilities in the statement of financial position. | The payable liabilities within next 12 months in the statement of financial position had been accurately classified and the liabilities which can't be settled within next 12 months had been accurately classified as non-current liabilities. | As per standard, the trade creditors should be mentioned under the current liabilities. |
| (b) | Sri Lanka Accounting Standard No.07 | | |
| (i) | Even though the net profit or loss should be used in the preparation of the statement of cash flows in indirect method as per the paragraph 18(b) of the standard, the statement of | In accordance with the accounting standard, the statement of cash flows should be prepared based on the profit before tax. | As per the standard, the net profit or loss should be used in the preparation of the statement of cash flows in the indirect method. |

cash flows had been prepared taking into consideration the profit before interest by company not in compliance with that.

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| (ii) | The negative impact of the net cash flows generated under the operating activities had been increased by same amount due to non-identification of the positive impact of accounts payable of Rs.25,275,171 within the working capital changes under the operating activities in the statement of cash flows. | The changes in the accounts payable had been identified and adjusted under the financial expenses in the statement of cash flows. | A change of accounts payable of Rs.25,275,171 had not been adjusted in the financial expenses and the action should be taken to accurately adjust the effect of the changes of the working capital under the operating activities of the statement of cash flows. |
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the management	Recommendation	
(a)	Though the rupee value of US \$ 170,580 payable to a private company as at 31 March 2022 was Rs.51,002,703 as per the foreign exchange rate published by the Central Bank of Sri Lanka, such value had been identified as Rs.46,947,156 as non-current liabilities in the statement of financial position by company and non-current liabilities had been understated by Rs.4,055,547. Furthermore, since the foreign exchange conversion loss of Rs.16,538,720 in the year under review had not been identified in the financial expenses of statement of comprehensive income as per the paragraph No.28 of Sri Lanka Accounting Standard No.21, the loss of the company had been understated by same amount.	Since the company had not taken action to settle this outstanding debtor balance, the adjustment of this foreign exchange loss in the statement of comprehensive income is not practical and it had been adjusted in the retained earnings it had been adjusted in the retained earnings. However, if this adjustment is contrary to the accounting standards, the action will be taken to adjust in 2022/2023 accounting period.	As per the standard, the foreign exchange conversion loss should be adjusted in the financial expenses.

- (b) As at 31 March 2022, the trade receivable balance of the company was Rs. 11,931,916 and the provision for impairment losses had not been made from 2012/2013 to the year under review. An accounting policy had not been identified for that also. The provision for doubtful debt had been made due to the death of such debtors and inability to recover the loans owing to that reason. But the company was unable to accurately estimate the bad debt amount and the action is being taken to further recover. Therefore, the provision for doubtful debt made in 2011/2012 is being carried forward up to now. The provision for impairment losses should be made for the trade receivables.
- (c) Even though the provision for gratuity is Rs.36, 814, 217, employee gratuity expense is Rs.5, 744,821 and actuarial loss is Rs.1, 377,780 as per the statement of financial position, in accordance with the schedules, such balances are Rs.36, 087,891, Rs.4, 812,482 and Rs. 1,583,792. The action will be taken to rectify it in the year 2022/2023. The action should be taken to prepare the reconciliation statements for gratuity and rectify the balances and adjust in the financial statements.

1.6 Account Receivables and Account Payables

1.6.1 Receivables

Audit Observation	Comments of the management	Recommendation
The balance of of Rs.12, 429,596 from the trade receivable balance had to be recovered since more than 05 years and it is 70 percent from total receivable amount.	Manu customers make the payments on time. The provision for doubtful debt had been made due to inability to recover such loans owing to death of said debtors. The company was unable to accurately estimate the bad debt and the action is being taken to further recover.	A suitable internal control system should be identified for recovery of the trade receivable balances.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
The balance of Rs.68,901,350 from the trade payable balance of Rs.89,084,301 had to be paid since more than 05 years and it is 78 percent from total payable amount.	The loan and interest balances mentioned in the audit report agree with the values in financial statements.	After identifying a planned program for in relation to settlement of the payable accounts, it should be immediately settled.

1.7 Non-compliance with laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 15 of Employees' Provident Fund Act No.15 of 1958	The payable balance prevailed was Rs.37,045,709 from 2015 to 31 March 2022 due to non-payment of the contributions of every employee and the contributions of the employer by the employer to the Fund before the last date of the following month.	The payable balance of Employees' Provident Fund was Rs.52,668,307 by 31 August 2025.	As per the Act, the step should be taken to pay the contributions of Employees' Provident Fund on due dates.
(b) Employees' Trust Fund Act No.46 of 1980	The payable balance was Rs.1,945,425 as at the last date of the year under review due to non-payment of the contributions of Employees' Trust Fund from September 2021 to 31 March 2022.	By 31 October 2025, payable Employees' Trust Fund balance was Rs.3,214,178.	As per the Act, the step should be taken to pay the contributions of Employees' Trust Fund on due dates.
(c) Section 26 of Value Added Tax Act No.14 of 2002 and Value Added Tax (Amendment) Act No.06 of 2005	Value Added Tax not paid by the company was Rs.182,739,938 existed from 2010 to the last date of the year under review and a surcharge of Rs.27,963,374 had to be paid on that date due to non-payment of Value Added Tax periodically.	The action had been taken to settle Rs.66,105,672 from the payable Value Added Tax on 18 April 2025 and the step had been taken by the authorized officers to write-off the surcharge enforced.	As per the Act, the action should be taken to pay Value Added Tax on due dates.

(d) Companies Act
No.07 of 2007

- (i) Section 50 (i) The share certificates had not been issued to the relevant shareholders with regard to the shares with a value of Rs.24,905,369 even by 18 September 2025 which was the date of audit though the share certificates should be issued to the name of the qualified shareholders as soon as the incorporation of the company under section 05 of the Companies Act. The measures had not been taken to issue the shares by company after issuance of the initial shares. But the initial issuance had been cancelled later and therefore, no share certificate had been issued by company. A cancellation is not observed in the audit and the share certificates should be issued to the shareholders.
- (ii) Section 220(i) If at any time it appears to a director of a company that the net assets of the company are less than half of its stated capital, the board shall within twenty working days of that fact becoming known to the director, call an extraordinary general meeting of shareholders of the company for the purpose of this section, to be held not later than forty working days from the date of calling of such meeting. However, the net assets of the company had taken a minus value of Rs.390.45 million as at 31 March 2022 and no action had been taken by the management as per the Act. The Board of Directors of the company had not called any extraordinary general meeting in 2021/2022. But Annual General Meeting had been conducted in March 2021. As per the Act, The measures should be taken to conduct an extraordinary general meeting to the shareholders by Board of Directors.

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| (iii) | Section 133 | Though the board of a company shall call an annual general meeting of shareholders to be held once in each calendar year not later than six months after the balance sheet date of the company and not later than fifteen months after the previous annual general meeting, such meeting had not been conducted after March 2021. | Any extraordinary general meeting had not been conducted in 2021/2022 by Board of Directors of company. But an annual general meeting had been conducted in March 2021. | As per the Act, the step should be taken to conduct the annual general meetings by Board of Directors. |
| (e) | Economic Services Charge Act No.13 of 2006 | The Economic Service Charge for relevant quarter should be paid to the Commissioner General of Inland Revenue on 26 of the ensuing year after the end of the relevant quarter; the unpaid Economic Service Charge was Rs.3, 139,671 for the years 2012 and 2013 by company as at last date of the year under review as per Act. | The responsibility of Economic Service Charge had been carried forward from the preceding years. | The action should be taken by the management to settle these balances taking into consideration the legal status. |
| (f) | Section 04 of Nation Buildings Tax Act No.09 of 2009 | Even though the Nation Building Tax should be remitted to the Commissioner General of Inland Revenue on or before 20 of the ensuing year at the end of the relevant quarter, Nation Building Tax was Rs.28, 580,611 for the period from 2012 to 2019 payable by company at the last date of the year under review, a surcharge of Rs.4, 713,899 had existed on that date due to non-payment of Nation Building Tax periodically. | The action had been taken to settle the Nation Building Tax in 2023/2024 and since the action had been taken to omit the surcharge, it should be removed from the books. | Since the part had been settled, the action should be taken to pay the Nation Building Tax periodically as per Act. |

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| (g) | Section 18(4) of National Audit Act No.19 of 2018 | Even though the audit fees should be paid within 30 days from the date of invoice, the audit fee of Rs.2, 180,000 had to be paid at the final date of the year under review in relation to the period from 01 April 2015 to 31 March 2022. | The step had not been taken to pay the audit fees and since the fees take a higher value, it had been requested to reduce it. | As per the Act, the action should be taken to properly pay the audit fees. |
| (h) | Paragraph 5.1.3 of the Public Enterprises Circular No.12 dated 02 June 2003 and paragraph 2.3 of the Guidelines of the Public Enterprises Circular No.01/2021 dated 16 November 2021 | Even though the strategic plan including the Action Plan and Annual Budget prepared by company should be presented appropriately to Department of Public Enterprises or Department of National Budget by line ministry, said plan had not been prepared by company in relation to 2021/2022. | Though the strategic plan, action plan and annual budget of the company had been prepared, it had not been submitted for the approval of the Board of Directors by the company due to the various internal issues. | As per the Public Enterprises Circular, the strategic plan including the action plan and the annual budget should be prepared. |
| (i) | Operational Manual of Public Enterprises Circular No.01/2021 dated 16 November 2021 | | | |
| (i) | Paragraph 6.6 | Though the financial statements and draft annual report should be submitted to the Auditor General within 60 days at the end of the accounting year, the financial statements for the year ended 31 March 2022 had been presented by the company on 18 September 2025 with a | The financial statements for the years 2022/2023, 2023/2024, 2024/2025 had been prepared. It is certified by the company that it is complied with the requirement of | In accordance with the Operational Manual, the step should be taken to submit the financial statements to the audit on due dates. |

delay of 03 years and 03 months. The draft annual report with regard to that year had not been submitted to the audit even by 30 November 2025. Similarly, the financial statements for the years ended 31 March 2023, 31 March 2024 and 31 March 2025 had not been submitted to the audit even by 10 March 2026.

submission of the financial statements within 60 days from the end of the financial year since 2025/2026.

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| (ii) | Paragraph 4.2 | Though the audit and management committees should be conducted at least once in three months, only 02 meetings had been conducted by such committee in relation to 2021/2022 by company.. | The answers had not been submitted. | The action should be taken to conduct audit and management committee meetings as per Public Enterprises Circular. |
| (j) | Procurement Guidelines 2006 | | | |
| (i) | Paragraph 4.2.1 | Though a master procurement plan including expected procurement activities at least for a period of 03 years, the information to verify on that had not been submitted to the audit. | The answers had not been provided. | As per the Procurement Guidelines, a master procurement plan should be prepared. |
| (ii) | Paragraph 3.4.3 | The registered suppliers' document in update manner had not been maintained for the year under review by company. | The action had been taken to update the registered suppliers' document in 2023/2024. | A registered suppliers' document in update manner should be maintained as per the Procurement Guidelines. |
| (iii) | Paragraph 4.2.2 | A procurement time schedule in chronological order, steps of each individual procurement action had not been prepared for the year under review by the company. | The procurement activities had been made by company in compliance with the procurement guidelines issued by the ministry with the approval of the General Treasury. Furthermore, the | As per the Procurement Guidelines, a procurement time schedule in chronological order, steps of each individual procurement action should be prepared. |

action had been taken enabling to continuously carry out the manufacturing activities of raw materials such as threads, salt and chemicals 03 factories on the guidance of the Chairman.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a loss of Rs. 112,074,881 and corresponding loss in the preceding year was Rs. 89,278,872. Accordingly, a deterioration of Rs.22, 796,009 was observed in the financial result. The reasons for this deterioration are increase of the cost of sales by Rs.10, 479,524, decrease of other income by Rs.9,222,534 and increase of selling and distribution expenses by Rs. 940,725.

2.2 Trend analysis of Major Income and Expenditure items

The nylon twine and other examination reports fee which was Rs.92, 900 in was Rs.466, 040 in the year under review and it had increased by 401 percent. Rs.2,000,000 had been spent for rent expenses in the preceding year and a sum of Rs.2,620,000 had been incurred for that in the year under review and it was increased by 31 percent. The miscellaneous expenses which was Rs.30, 718 in the preceding year was Rs. 156,854 in the year under review and it had increased by 410 percent.

2.3 Ratio Analysis

- (a) The gross profit ratio in the year under review is 25 percent and said ratio in the preceding year was 20 percent and it had been improved by 5 percent as compared with the preceding year. Accordingly, the cost of sales had exceeded the sales income.
- (b) The net loss ratio in the year under review was 46 percent and said ratio was 36 percent in the preceding year and it had been improved by 10 percent as compared with the preceding year. The other income of the company had reduced by 39 percent and loan interest expenditure had increased by 22 percent.
- (c) Though optimum current ratio should be 2:1, this ratio was 0.37 in 2021/2022 and it was observed that the current assets are not adequate to settle the short-term liabilities.
- (d) Though optimum quick ratio should be 1:1, said ratio was 0.15 and it was observed that the short-term liabilities couldn't be filled and as such ratio was 0.21 in the preceding year, said ratio had deteriorated as compared with the preceding year.

- (e) The cash ratio is a measurement of liquidity and Since the cash ratio of the company is 0.03, the company had no possibility of covering the short-term liabilities and it was observed that there is a working capital issue.
- (f) When long-term loan capital ratio is more than 01,the loan capital is more as compared with the equity capital of the company, it was observed that the institute depends on the loan capital and there is a risk on going concern .The loan capital in the year under review was 6.5 and said ratio was 3.8 in the preceding year and therefore, it was observed that the financial issues had further improved.
- (g) The stock turnover days and debtor turnover days are 60 days and 20 days respectively and said ratios in the preceding year were 78 days and 22 days respectively.Accordingly, since such time had reduces as compared with the preceding year, it was observed that the stock converting to the sales and receipt of money from debtors is in favourable condition as compared with the preceding year.
- (h) In the year under review, creditor turnover days are 118 and it was 99 days in the preceding year. Accordingly, it was observed that the issues had arisen in relation to the payment to trade creditors by company as compared with the preceding year.

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>02 loan amounts of Rs.28,785,649 had been obtained from the Bank of Ceylon by company on General Treasury guarantees for the payment of salaries within the year ended 31 March 2021 and Rs.8,732,989 timely loan amount out of Rs.50,000,000 obtained before several years had been payable as at 31 March 2021. A sum of Rs.39, 571,983 had been obtained within the year ended 31 March 2021 and the balance loan amount of Rs.19, 756,112 had been obtained within the year ended 31 March 2022 from the loan amount of Rs.59, 328,095 obtained from the Sri Lanka Savings Bank. In addition packaging loan amount of Rs.54, 828,182 had been obtained from the Bank of Ceylon in the year ended 31 March 2019.A timely loan instalment of Rs.101, 057 and aggregate loan interest of Rs.5,792,025 had been only paid in the year under review for this total loan amount obtained. A loan interest amount of</p>	<p>The loan and interest balances mentioned in the audit report agree with the values included in the financial statements.</p>	<p>The instalments for the loans should be paid on due date.</p>

Rs.10, 919,657 had to be paid to Bank of Ceylon as at 31 March 2022.

3.2 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) Only 80 employees related to Jaffna factory had been included in the approved cadre. The approval had not been obtained for the employees in relation to Lunuwila and Weerawila factories taken over later. Accordingly, it was observed that 197 employees had served on permanent basis as at December 31 in the year under review as 05 employees in relation to 03 posts in senior level, 17 employees in relation to 07 posts in the secondary level, 175 employees in relation to 05 posts in the primary level which had not been included in the approved cadre. Furthermore, even though there is excess of 21 employees in 04 posts within the approved cadre on permanent basis, the action had not been taken to get cadre revised by the Department of Management Services by company.	The recruitments had been made in compliance with the requirement of the company on receipt of the approval of the Department of Management Services later. But the approval had not been further received for Weerawila and Lunuwila factories and the approval had been received only for the cadre of Jaffna factory.	The action should be taken to amend the cadre by the Department of Management Services by company.
(b) 02 employees had been recruited on contract basis for 02 posts in seniority level not included in the approved cadre as at 31 December 2021 of the company, 04 employees in relation to 02 posts in the primary level had been recruited on temporary basis.	The recruitments had been made corresponding to the requirement of the company on later receipt of the approval of Department of Management Services. But the approval had not been received so far for Weerawila and	The step should be taken by company to get cadre revised by Department of Management.

Lunuwila factories and the approval had been only received for cadre of Jaffna Factory.

- (c) Though an Internal Auditor was working at the last date of the year under review, no measures had been taken by company to get such post approved from Department of Management Services and include into the cadre.
- Even though Chairman of the company had taken efforts to obtain the approval for the post of Internal Auditor, the approval had not been granted so far.
- The action should be taken to get approved the post of Internal Auditor from the Department of Management Services.