

Manthai Salt Limited – 2015/2016

The audit of the financial statements of the Manthai Salt Ltd (The Company) for the year ended 31 March 2016 comprising the statements of financial position as at 31 March 2016 and the profits or losses and other comprehensive income statement,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 on the performance of the Company of the year under review, which I consider should be tabled in Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Board of Directors' 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 and for such internal control as the Board of Directors 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 management, 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) Interest income had been understated by Rs.201,470. As a result profit for the year under review had been understated by the similar amount.

- (b) The Stock of salt of 05 metric tons valued at Rs. 59,668 which had been sold but not dispatched to the customer had been included in the closing stock as at 31 March 2016. Hence the stock and the profit for the year under review had been overstated by similar amount. Further book value of stock had been taken as closing stock and a difference of 62.289 metric tons valued at Rs. 743,331 observed between the physical stock and the book value. As a result closing stock and profit for the year under review had been understated by Rs.743.331.
- (c) Preliminary expenditure amounting to Rs. 3,303,491 incurred to establish a new factory (Salt Field) at Elephant pass had been charged against income of the year under review instead of being capitalized. As a result, profit of the year under review had been understated by similar amount.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Basis for qualified opinion paragraph of this report, the financial statements give a true and fair view of the financial position of Manthai Salt Limited as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2.1 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 Unreconciled Differences

A difference of Rs. 114,750 was observed between the balances shown in the financial statements and the schedule relating to festival advances.

2.3 Non - compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliance with Laws, Rules, and Regulations was observed.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non-compliances

Public Enterprises Circular No
PED/1/2015 dated 25 May 2015

Contrary to the requirement of the circular a sum of Rs.290,000 had been obtained by the Chairman of the Company as travelling allowance while using an official assigned vehicle.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, surplus of the company for the year ended 31 March 2016 was Rs. 275,429 as compared with the surplus of Rs.4,457,567 for the preceding year, thus indicating a deterioration of Rs. 4,182,138 or 94 per cent in the financial result. Even though the revenue had increased by Rs. 13,352,058 or 27 per cent, the increase of cost of sales by Rs.21,356,921 had mainly attributed to this deterioration.

3.2 Analytical Financial Review

The following observations are made.

(a) In analyzing the financial result of the year under review and preceding two years, the financial result had declined continuously.

(b) Significant ratio for the year under review and preceding three years are given below.

Descriptions	2015/2016	2014/2015	2013/2014	2012/2013
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Gross Profit Ratio	21.15	43.24	26.04	34.30
Net Profit Ratio	0.44	9.09	15.91	1.29
Return on Assets	0.41	7.25	10.67	0.01
Return on Capital Employed	0.68	6.84	7.09	0.39
Current Ratio	2.14	4.44	14.23	3.89
Quick Ratio	1.64	1.00	5.64	1.98

(i) Gross profit ratio had decreased by 51 per cent during the year under review as compared with preceding year due to the increase in the cost of sales of production.

(ii) Net profit ratio had drastically decreased from 9.09 per cent to .044 compared with the preceding year.

- (iii) Profit earned by each rupees of employed capital (ROCE) had suddenly reduced from 6.84 per cent to 0.68 per cent. It indicates that company earns only 0.68 cents of profit for its investment of each rupee.

4. Operating Review

4.1 Management Activities

Even though the estimated damage occurred due to a vehicle accident taken place on 11 November 2016 was Rs. 2.5 million, the vehicle had been kept in the Toyota Company Garage without repairing and preliminary investigation had not been conducted and reported to audit.

4.2 Un-economic transaction

The following observations are made.

- (a) Although an executive Director appointed to the company for the year under review had not involved to the affairs of the company, monthly allowances aggregating Rs.884,425 had been paid for the year under review.
- (b) Although a sum of Rs.453,198 had been paid as Salaries and allowances to a casual labour during the year under review, he had not engaged to the affairs, of the company and, his name had not been included in the monthly labour check roll.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements, along 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 22 September 2017.

5.2 Internal Audit activities

Internal audit activities had not been conducted in respect of Saltern factories located at Mannar and Elephant Pass for the year under review.

5.3 Audit Management Committee Meeting

As per the Department of Management Audit Circular No. DMA/2009 (1) dated 9 June 2009 amended by the Circular No. DMA/Cir-edit/2016 dated 28 January 2016, required number of audit management committee meetings had not been convened.

6. **Systems and Control**

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

Areas of System and Control	Observations
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(i) Stock Management	Value of the closing stock had been shown without considering the variation of stocks arisen in the physical verification.
(ii) Price Decision	Price changing decisions had been taken voluntarily without any substantial decision making.
(iii) Revenue Recognition	No uniformity found in recognition of interest income and other income.
(iv) Financial control	Excess balance was being maintained at the end of the year without being utilized for investment purpose.
(v) Maintenance of Registers	Fixed assets register not being maintained properly.