

## North Sea Limited - 2022/2023

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The audit of the operating activities of the North Sea Limited for the year ended 31 March 2023 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.

### 1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

As per 16 (1) of the National Audit Act No. 19 of 2018, each audited entity 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 on that entity.

## 2. Financial Statements

### 2.1 Submission of Financial Statements

Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year, in accordance with Section 6.5.1 of the Public Enterprises Department Circular No. PED/12 dated 02 June 2003 and in accordance with Paragraph 6.6 of the Operations Manual issued with Circular 01/2021 dated 16 November 2021, the financial statements and draft annual reports for the years ended 31 March 2022 and 31 March 2023 had not been submitted to the Auditor General by 25 August 2024.

### 2.2 Existence of Assets and Liabilities

Details of assets, liabilities, income and expenses shown in the financial statements which were prepared by the Company as at 31 March 2021 are given below.

	<b>21/2020</b>	<b>20/2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Non-current Assets	250,938,389	284,221,302
Current Assets	<u>89,194,058</u>	<u>82,457,994</u>
Total Assets	<u>340,132,447</u>	<u>366,679,296</u>
Equity	(259,756,536)	(176,321,640)
Non-current Liabilities	482,478,567	469,688,332
Current Liabilities	<u>117,410,416</u>	<u>73,312,603</u>
Total Equity and Liabilities	<u>340,132,447</u>	<u>366,679,295</u>
Income	269,066,886	258,829,633
Expenditure	358,345,758	376,990,294
Profit / (Loss) after tax	(89,278,872)	(118,160,661)

## 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendations
(a) Section 15 of the Employees' Provident Fund Act, No. 15 of 1958	Every employer to whom this Act applies should calculate the employee's contribution and the employer's contribution for each employee and pay it to the Fund before the last day of the following month. Nevertheless, the total contribution from July 2020 to 31 March 2023 amounted to Rs. 51,451,021 had been not been remitted to the Employees Provident Fund as at 31 March 2024, the date of audit.	Out of the outstanding balance to be paid to the Employees' Provident Fund contributions up to 31 March 2023 amounting to Rs.51,471,021, the amount paid as of today is Rs.1,059,167.81. Accordingly, the remaining amount to be paid is Rs. 50,411,854. Payment as per the order given by the Honourable Court for the outstanding amount belonging to the Weerawila Factory.	Provident fund contribution amount should be deducted from earnings of the employees and it should be remitted to the Fund before the last day of the following month.
(b) Section 16(1) of the Employees' Trust Fund Act No. 46 of 1980	Every employer to whom this Act applies shall be obliged to remit an amount equal to three per cent of the total earnings earned by the employee in respect of such employees for each month in which the employee is employed to the Employees' Trust Fund, on or before the last day of the following month. Nevertheless, actions had not been taken to remit a contribution amount of Rs. 4,139,226 to the Fund for the period from September 2021 to March 2023 by the Company without being complied.	The amount to be paid is Rs. 3,674,194. An agreement has been entered into with the Employees' Trust Fund to pay it off in 12 installments.	Employee Trust contribution amount applicable to each employee should be reduced and remitted to the Fund before the last day of the following month.

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| <b>(c)</b> | Section 18(4) of the National Audit Act, No. 19 of 2018 | Even though the audit fees should be paid within thirty days from the date of invoice, actions had not been taken by the company to pay the audit fees of Rs. 1,979,100 for the period from the financial year 2015/16 to the financial year 2020/21 even by the date of audit 31 March 2024.  | It is informed that the audit fee currently payable amounting to Rs. 1,979,100 has not been paid as of today. It is informed you that the necessary arrangements for payment will be made.  | Actions should be taken to pay the audit fee in terms of Section 18(4) of the National Audit Act, No. 19 of 2018. |
| <b>(d)</b> | Section 50(1) of the Companies Act, No. 7 of 2007       | Although the Company should issue share certificates to each shareholder named in the application for incorporation immediately after incorporation under Section 5 thereof, even though the Company was incorporated in 2001 and re-registered under the Companies Act 2007 and issued shares, the share certificates had not been issued to the relevant shareholders even by 24 March 2024, the audit date. | Certificates have not been issued even by today .   | Shareholders should be issued to share certificates.  |
| <b>(e)</b> | Value Added Tax Act No. 14 of 2002                      | The Company had not taken actions to remit the Value Added Tax balance as at 31 December 2023 amounted to Rs. 144,271,952 to the Commissioner of Inland Revenue even by the date of audit 27 March 2024 .  | It is informed that the payments are currently being made at a rate of Rs. 100,000 per month based on the current income of the institution based on the agreement entered into with the Inland Revenue Department for the Value Added Tax amount of Rs. 144,271,952 as at 31 December 2023 . | Actions should be taken to remit the balance of Value Added Tax to the Commissioner of Inland Revenue.            |
| <b>(f)</b> | Nations Building Tax Act No. 9 of 2009                  | The Company had not taken actions to remit the balance of Rs. 20,455,629 payable by the Company by the end of 2023   | Out of the Nations Building Tax of Rs.20,455,629 remained by the end of 2023, the amount of Rs.   | Actions should be taken to be remitted to the Inland Revenue Department along with                                |

to the Inland Revenue Department along with the Nations Building Tax and related fines even by 24 March 2024, the audit date. 12,838,881 for which the Inland Revenue Department has filed a lawsuit in court was paid to the court. the Nations Building Tax and related fines.

- (g) National Procurement Agency Circular No. 9 dated 01 March 2006
- Even though the Procurement Guidelines for goods and works, 2006, and the related manual, should be followed in a transparent manner, in accordance with the prescribed standards, specifications and rules and regulations, to ensure maximum economic benefits when purchasing goods and services, without being adhered to that, the Company had purchased raw materials valued at Rs. 17,595,099 in the year 2022/2023.
- A Procurement Process had not been prepared for the year 2022/2023 .
- Actions should be taken in accordance with the Circular No. 9 dated 01 March 2006 of the National Procurement Agency.

### 3. Operational Review

#### 3.1 Performance

Audit Observation	Comments of the Management	Recommendations
(a) Although the Corporate Plan should be prepared and accordingly, the Line Ministry, the Department of Public Enterprises should submit the consolidated plan prepared 15 days before the commencement of the financial year to the Treasury and the Auditor General to conduct the business in a manner that enables the proposed goals to be achieved, after the Board of Directors approves it in terms of Section 5.1.3 of the Public Enterprises Circular on Good Governance No. PED 12 dated 02 June 2003, and the Guidelines for Good Governance in Public Enterprises issued with Circular	It is informed that the Business Plan prepared for this period has not been included in the records of the institution.	The Company should prepare a Corporate Plan and submit it to the Line Ministry, the Department of Public Enterprises, the Treasury and the Auditor General in terms of Section 5.1.3 of the Public Enterprises Circular on Good Governance No. PED 12 dated 02 June 2003, and the Guidelines for Good Governance in Public Enterprises issued with Circular 01/2021 dated 16 November 2021 .

01/2021 dated 16 November 2021, a Business Plan covering the years 2022/23 had not been submitted for audit even by the date of audit, 27 March 2024 .

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| <p>(b) Although an Action Plan should be prepared that includes the commercial activities expected to be implemented in the next financial year in terms of Paragraph 05(02) of the Public Finance Circular No. 01/2014 dated 17 February 2014 and Section 5.1.3 of the Public Enterprise Circular No.PED12 dated 02 June 2003, the Company had not prepared an Action Plan for the 2022/23 financial year.</p>   | <p>It is informed that the Business Plan prepared for this period has not been included in the records of the institution.</p> | <p>An Action Plan should be prepared that includes the commercial activities expected to be implemented in the next financial year in terms of Paragraph 05(02) of the Public Finance Circular No. 01/2014 dated 17 February 2014 and Section 5.1.3 of the Public Enterprise Circular No.PED 12 dated 02 June 2003 .</p> |
| <p>(c) Although the Company should prepare a regularly updated Procurement Plan within a period not exceeding six months by preparing a Master Procurement Plan for a period of at least three years and thereafter, including the matters specified in 4.2.1 of the Procurement Guidelines on the procurement activities for the coming year in terms of Paragraph 4.2.1 (b) of the Procurement Guidelines, the Company had not prepared such a Procurement Plan for the 2022/23 financial year.</p> | <p>A procurement process had not been prepared for the year 2022/2023 .</p>  | <p>The Master Procurement Plan for a period of at least three years and a Procurement Plan updated regularly within a period not exceeding six months, including procurement activities for the following year should be prepared according to the Procurement Guidelines.</p>   |

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
<p>(a) Although the Company's land valued at Rs. 2,833,333, buildings valued at Rs. 16,655,380 and other assets valued at Rs. 446,270,210 are required to be revaluated every three or five</p>	<p>It is informed that the values shown for the lands and buildings owned by the institution are the values mentioned in the books about 10 years ago. A revaluation of</p>	<p>The assets belonging the Company should be revaluated every three or five years.</p>

years, actions had not been taken to revalue the assets owned by the Company.

those assets has not been carried out. It is informed that the necessary steps will be taken to revalue those assets in the future.

(b) Actions had not been taken even by the date of audit to settle the receivable of Rs. 21,474,469 which is not being recovered and payable of Rs. 247,197,644 as per the financial statements 2020/21 .

The receivable balance and payable balances shown in the financial statement 2020/2021 are accurate and the details related to those balances are three factories owned by our Company and it is informed that this information is available in the institutions of Lunuwila, Weerawila, and Jaffna.

Actions should be taken to recover outstanding receivables and settle outstanding payables according to financial statements.

### 3.3 Human Resources Management

#### Audit Observation

The Chairman of the Company had submitted letters to the Director General of the Department of Management Services on 11 March 2022 and 25 March 2022 to obtain approval for the recruitment of staff and in response to that, the Director General of the Department of Management Services had submitted a letter dated 2022.05.18 requesting a detailed report on 4 matters. Nevertheless, the information related to that letter had not been properly submitted by the Company to the Director General of the Department of Management Services even by the date of the audit. Accordingly, despite it was an essential matter to get the approval for the staff, due to the delay in providing the necessary information by the Company, the process of getting approved of the staff had further delayed.

#### Comments of the Management

Answers have not been given.

#### Recommendations

The Company should take actions to submit the requested information to the Department of Management Services for obtaining approvals for the positions.

#### 4. Accountability and Good Governance

##### 4.1 Audit and Management Committees

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
Although Audit and Management Committee Meetings should be held every three months, that is, once in a quarter, and the Board of Directors should be informed about the necessary actions in accordance with Paragraph 7.4.1 of the Department of Public Enterprises Guidance Circular for Good Governance No. PED 12 dated 02 June 2003 and Public Enterprises Circular 1/2021 dated 16 November 2021, the Company had not held Audit and Management Committee Meetings for the year 2022/23 .	Although Audit and Management Committee Meetings should be held once in every quarter, it seems that the Management and Board of Directors, including the Chairman, of the institution at that time did not carry out those activities.	Audit and Management Committee Meetings should be held in accordance with Paragraph 7.4.1 of the Department of Public Enterprises Guidance Circular for Good Governance No. PED 12 dated 02 June 2003 and Public Enterprises Circular 1/2021 dated 16 November 2021 .

##### 4.2 Meetings of Board of Directors

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
The Board of Directors shall meet twelve times a year, once a month in accordance with Paragraph 4.2.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003 and Public Enterprises Circular No. 1/2021 dated 16 November 2021 and although guidance and evaluation of the performance of the Company should be carried out, only 2 Meetings of Board of Directors had been held in April and August for the financial year 2022/23 . Further, Meetings of Board of Directors had not been held after July 2023 until the date of audit (August 26, 2024) .	It has been impossible to hold Meetings of Board of Directors properly due to the resigning of the Treasury Representative of the Board of Directors on 18.09.2023, the resigning of another director, and the failure of two other directors to attend the Board of Directors meetings as scheduled.	Meetings of Board of Directors should be held in accordance with Paragraph 4.2.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003 and Public Enterprises Circular No. 1/2021 dated 16 November 2021 .