

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Salt Company Ltd “Company” for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) .

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 for Small and Medium-sized Entities (SLFRS for SMEs) 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 Auditor's Responsibilities for the Audit of the Financial Statements

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 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 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 Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non-compliance with reference to relevant Standard	Management Comments	Recommendation
(a) Even though the vehicles and equipment of Elephant Pass Saltern valued at Rs.6,828,395 had been included in the Board of Survey Report in terms of Paragraph 17.2 of Sri Lanka Accounting Standard for Small and Medium-sized Entities on property, plant and equipment, those assets had not been included in the financial statements.	Actions will be taken to include the value of property, plant and equipment in the financial report of the year 2023/24 .	Actions should be taken to compare the asset schedule with the physical verification report and include it in the financial statements in terms of the Standard.
(b) Due to failure to estimate and review the useful lives of assets in terms of Paragraph 17.19 of the Sri Lanka Accounting Standard for Small and Medium-sized Entities on Property, Plant and Equipment, the fully depreciated equipment amounted to Rs.7,856,096 had been used during the year under review.	Actions have been taken to revalue the fully depreciated assets in the financial year 2023/24 .	The useful life of assets should be reviewed annually in terms of the Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comments	Recommendation
<p>(a) Although the value of the stock of salt sold by the Company should be credited to income at the time of discharged by the buyer in terms of Paragraph 23.10 of Sri Lanka Accounting Standards for Small and Medium-sized Entities, the amount receive for the sales invoice had been shown in full as revenue in the financial statements. Therefore, failure of taking Rs. 10,164,900 belonging to the year 2022/2023 as income due to be recognized as income in the year 2021/2022 and due to the fact that inclusion of an income of Rs. 7,500,600 belonging to the year 2023/2024 in the income of the year 2022/2023, the income had been understated by Rs.2,664,300 in the year under review.</p>	<p>No refunds will ever be made to the buyer and in exchanging the risks and benefits of ownership of goods, it is recognized as income.</p>	<p>Actions should be taken to recognize the revenue in terms of the Standard.</p>
<p>(b) Although the final stock value of the Elephants Pass and Mannar two Salterns was Rs.19,302,311 according to the calculations of the audit, due to consideration of the value of the closing stock in the final accounts as Rs.16,939,168, the value of the stock had been understated by Rs. 2,363,143 .</p>	<p>This will be corrected in the next year.</p>	<p>The final stock value should be accurately calculated.</p>

1.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comments	Recommendation
<p>(a) Paragraph 6.6 of the Operational Manual for State-Owned Enterprises of Public Enterprises Circular No. 01/2021 dated 16 November 2021</p>	<p>Although a copy of the financial statements and Draft Annual Report for the year under review should be submitted to the Auditor General within sixty (60) days after the end of the accounting year, the Company has submitted its financial statements</p>	<p>The company had to recruit a new officer due to the resignation of the Finance Manager during the accounting year and this has been a cause to the delay of submission of the report. This problem will not be occurred in</p>	<p>Actions should be taken to submit financial statements and Annual Report on due date.</p>

for the year under review on 01 November 2023 that is, after a delay of 05 months. the next year.

Further, a draft of the Annual Report has not been submitted for audit until 25 October 2023.

- (b) Paragraph 3.2 (v) of the Operational Manual issued under Ministry of Finance Circular 01/2021 dated 16 November 2021 and Paragraph 2.5 of Ministry of Finance, Economic Stabilization and National Policy Circular PED 04/2022 dated 08 August 2022
- The Company had paid a monthly allowance of Rs.5,000 to all officers from June 2022 to December 2022 and ceasing that allowance, a sum of Rs. 10,032,098 had been paid for a period of 6 months from January to 111 officers with the approval of the Board of Directors in contrary to the provisions of the circular as a crisis allowance between Rs.500-850 daily by depending on the position.
- Considering the well being of the Company, the Board of Directors has decided to give an allowance of Rs.5000 per month. A Management Incentive Policy have been prepared and submitted for PED approval on 03/02/2023 and the Board of Directors has decided in February 2023 to pay the attendance allowance based on their category until the approval for that is received.
- Actions should be taken to pay allowances as per the circular.
- (c) Ministry of Finance, Economic Stabilization and National Policy Circular No. 09/2022 dated 21 December 2022
- In payment of bonus on profit for the year 2022, although an allowance of Rs.20,000 can be paid to the institutions which pay attendance, performance or other forms of incentive, a sum of Rs.615,000 had been overpaid due to payment of bonus of Rs.25,000 each to 123 officers of Elephant Pass and Mannar Salterns,
- Payments made exceeding the bonus approved by the Management to permanent employees have been recovered.
- do-

2. Financial Review

2.1 Financial Results

The operational result for the year under review was a profit of Rs. 134,806,255 and the correspondence profit for the preceding year was Rs. 109,940,047. Accordingly, an improvement of Rs. 24,866,208 was observed. Although it had increased the cost of sales by Rs.51,360,478, selling and administrative expenses by Rs. 24,344,748 and income tax by Rs. 37,013,757 during the year under review, increase of sales income by Rs.94,089,930 due to increase in selling price of salt compared to previous year and increase of interest income on fixed deposits by Rs. 36,229,522 had mainly attributed for this improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comments	Recommendation
Elephant Pass Saltern had sold 825 Mt.s of Common Salt Super Grade to a buyer during the year at a price of Rs.55,000 per MT. As the Company determines the Common Salt Grade by eye level inspection, the same criteria were applied to the Super Grade salt sold. As a result, the Company had been notified by the purchasing entity that the presence of variation of color in 825 metric tons of Super Grade and presence of extraneous matters, presence of mud and sand particles.	Actions will be taken to mitigate the problem in the future.	Production should be done in a manner that there is no loss to the organization.

3.2 Procurement Management

Audit Observation	Management Comments	Recommendation
Publishing a newspaper advertisement on 15 October 2021 to purchase 1,200,000 bags with four-color (LLDPE) for Mannar Saltern an institution had been selected in December 2021 by agreeing on the price of Rs 5.08 for a bag. Nevertheless, due to the delay in submission of orders till February 2022, a number of 500,000 bags had been purchased at Rs.14 per bag from another supplier who did not submit a tender by considering the devaluation of the rupee despite the selected supplier has expressed his willingness to supply a bag at a price of Rs.14. Because of the company has to buy bags at higher cost due to delay in delivery	Imports have been stopped unexpectedly due to the impact of COVID 19 and the economic crisis the price of raw materials went up and due to the shortage. Therefore, the awarded company has refused to supply the bags at the stated price. The new quotation was considered for cost calculation and the price of salt packets was increased accordingly. As	Ordering related to procurement should be done without delay.

of orders, a loss of Rs. 4,462,000 had the cost is covered by the NSL also to be incurred. through the increased price, there was no loss for NSL.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Management Comments	Recommendation
<p>Although it was estimated to produce 5,500 metric tons of Common Salt from Mannar salt flats and 16,000 metric tons from Elephant Pass Salterns in checking the budgeted data of the year under review, the actual production was around 2,215 metric tons and 6,167 metric tons respectively. That is, the company had failed to produce 3,285 metric tons and 9,833 metric tons respectively.</p>	<p>Due to the reasons such as impact of COVID-19, fuel crisis and power cuts, abnormal climate observed in 2021 and 2023 (that is, rainfall received during harvest and impact on production process) the production rate has decreased from 2020 to 2022.</p>	<p>Management should take actions to achieve the budgeted targets.</p>