National Salt Limited – 2021/2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Salt Limited ("Company") for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 31March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting 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 Financial Reporting 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 Responsibility 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 Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Contrary to paragraph 32.2 of the Sri Lanka Accounting Standard for Small and Medium–sized Entities (SLFRS for SMEs) on events after the end of the reporting period, the company had not provided for the lease rental amounting to Rs.6,115,200 from the year 2013 with regards to a leased land at Mannar. This has resulted in overstatement of the profit of the year under review by Rs.524,160 and the retained earnings by Rs.5,197,920. Further the liability had been understated by the same amount.	The Board approved the accounts to be submitted at the board meeting held on December 6, 2022 at the same time the Board approved the payment of Rs.6,115,200/- as lease payment for Mannar land. Even though the letter received on October 27 2022, accounts could not be adjusted without the Board approval for the payment. Since the Board has approved the accounts on Dec 6th 2022 the accounts could not be adjusted Subsequently to accommodate the payment of Rs. 6,115,200/- .	According to the standard, adjustments should be made to the balance sheet after and before reporting events related to the period.
(b) As per paragraph 17.2 of the SLFRS for SMEs on property, plant, and equipment, vehicles and equipment using at Elephant Pass, amounting to Rs.6,828,395 had not been taken into account though it was included in the fixed asset verification report. This had resulted in understatement of the property plant, and equipment by Rs.6,828,395 and depreciation by Rs.682,839.	These assets were actually purchased by the Ministry of Small scale industries and subsequently handed over to Mantai Salt Ltd. Action will be taken to recognize the unrecorded assets by valuing them by suitable valuer and will be depreciated.	According to the standard, Management should take action to reconcile the assets schedules with physical verification report and appropriate action should be taken for changes when preparing financial statements.

(c) Contrary to the paragraph 17.21 of the SLFRS for SMEs on property plant, and equipment, the company had used 10 percent depreciation rate for all the property plant and equipment excluding buildings.	suitable depreciation policy will be implemented after assessing the life time of the assets.	The company must follow the standard to ensure the accuracy and completeness of the data given in the financial statement by taking actions to establish the useful life of the assets.
(d) The company had not reviewed the assets estimated useful life at the end of the year as per paragraph 17.19 of the SLFRS for SMEs on property plant, and equipment. It was also observed that equipment worth of Rs.4,854,285 which had been fully depreciated are being used.	Valuation will be carried out for the fully depreciated assets .	As per the standard it is essential to determine the life of the asset annually and accordingly the necessary adjustments should be made in the accounts.
(e) Contrary to the paragraph 13.8 of the SLFRS for SMEs on inventories, the company had computed the closing stock related to the cost of production, excluding the depreciation amount Rs.8,150,247, which resulted a difference of Rs.1,184,730 in the closing stock related to elephant pass salter.	The amortization cost of Rs.8,150,247 relevant to the Government grant is not taken in to stock valuation due to that it is taken as other income under Government Grant which will net off eventually and no impact on financial statement.	The standard specifies that production costs, both directly and indirectly, shall be taken for calculate the closing stock

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) As per paragraph 10.21 of the SLFRS for SMEs on accounting policies, estimates and errors, the errors should be adjusted retrospectively. However the company had not adjusted the error of taking ten percent as depreciation related to the building of Mannar and Elephant Pass instead of taking five percent, which resulted to an understatement of asset and retained earnings by Rs.1,489,486.	Depreciation adjustment will be done during the current financial year 2022/2023	Correct the errors against the previous year's profit and submit the current year's financial statements.

(b) According to the fixed assets verification report at Mannar Salter was shown as Rs.40,318,411 and in the financial statement it was shown as Rs.38,555,395. As a result, there was a discrepancy in fixed assets amounting to Rs.1,763,016 between the financial statements and the fixed assets verification report.	The difference between the verification report and financial statement will be verified and reconciled in 2022/2023 financial statement	While preparing the financial statements, management should compare the assets listed in the books with the records of physical verification and take appropriate action on any discrepancies.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The Company was failed to recover Rs.34,211 debtor balance from the year 2017 and to settle the Treasury fund balance of Rs.811,706 outstanding from the year 2019.	The company will make suitable arrangements to write off the Rs. 34,211 as a long outstanding due from a customer and Rs. 811,706 which is due from Treasury for the EP saltern rehabilitation expenses and due to the economic crisis the treasury could not reimburse this amount.	Arrangements should be made to recover or settle the outstanding balances promptly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. 01/2021 on 16th November 2021 Chapter 6.6	The financial statements should be rendered to the Auditor general within 60 days after the close of the financial year . However, the company had submitted it on 21 December 2022 and the delayed was more than six months.	Financial statement delayed for submission due to the shortage of staff in the finance department and due to fuel crisis prevailed in the country staff could not attend the office. Action has been taken to recruit the necessary staff to finance department and avoid delay in submitting the financial statement to the audit.	It is responsible of the management to ensure that financial statement are submitted on due date.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.109,940,047 and the corresponding profit in the preceding year amounted to Rs.60,170,921 Therefore an improvement amounting to Rs.49,769,126 of the financial result was observed. The key reason for this improvement was that although the actual sales volume for the year under review was lower than in the years prior, the average selling price of salt increased by a higher amount than in the year prior, and the sales income increased.

2.2 Ratio Analysis

In the year under review, the company's profitability ratios increased, from a gross profit ratio of 35.7 percent to 53.4 percent and a net profit ratio of 29.9 percent to 44.1 percent. The main cause of this was the rise in sales price of salt, which led to an increase in revenue.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The company was established under the Companies Act no.17 of 1982 and continue under the Companies Act no.07 of 2007. The company had failed to achieve one of its primary objective in article of association, that is, the manufacture and sale of chemicals, and product derived from inland and marine water and any by-products derived. Further the company had failed to operate its ancillary power in respect to carry on the business of agriculture and aquaculture including import and export of sea weeds, sea foods and pearl fish, the another ancillary power is to manufacture and import raw materials for packaging purposes, including, polypropylene and the transport of same.	the article of association is developed with the core concept and the minor/ancillary concepts to bear the business balance of any variation or diversification in possible way. But the core function of the National Salt Limited is Manufacture of salt and value addition of Salt related product. Based on the future saltern development NSL has planned to culture the Artemia growth in the pond that will be considered as aqua culture.	Management should work to achieve the objectives mentioned in the article of association.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
The salt production of Mannar and Elephant pass salters for the year under review was 7,661 MT against the budgeted production of 13,839 MT which counts only 64 percent.	Due to the COVID 19 affect and the transport restriction (both Government restriction and fuel shortages) during this period the attendance of the labours were limited. Due to the lack of labours and limited number of working days for the staff the production process also affected.	The management should take decision to achieve the budgeted targets.