National Salt Limited - 2023/2024

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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 2024 comprising the statement of financial position as at 31 March 2024 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 material accounting policy information, 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 2024, 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 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 skepticism 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 for Small and Medium-sized Entities (SLFRS for SMEs)

	Non-Compliance with the Relevant Standard with Reference	Comments of the Management	Recommendation
(a)	According to paragraph 13.4 of the Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), the inventory of the Company should be measured at the lower of cost or net realizable value, the closing inventory balance of Rs. 50,428,449 had been valued at the budgeted unit cost.	In the 2024/25 financial year, steps will be taken to consider the lower of cost or net realizable value when valuing inventory.	Inventory should be valued according to the standard.
(b)	According to paragraph 17.15 C of the Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), when calculating the revaluation gain or loss, the carrying amount of the assets at the revaluation date should be determined, and any value exceeding the carrying amount should be accounted for as a revaluation gain. However, assets valued at Rs. 6,828,395, which had been transferred to the company as a government grant in 2020 and which had been not previously accounted for, were valued at Rs. 4,909,500 on 24 August 2023, and this revalue amount had been accounted for under revaluation reserves and assets without recognizing them as capital grants.	This adjustment will be corrected in the final accounts for the year of 2024/25.	The value of the assets should be recognized in the accounts, and the revaluation gain should be identified according to the standard.

(c)	According to paragraph 28.24 of the Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), in case of recognition of the cost of defined benefit plans, actuarial gain or loss for the period should be recognized in the income statement or under other comprehensive income. However, the Company had been recognized an actuarial loss of Rs. 411,199 as an expense in the income statement and as a gain under other comprehensive income, thus the total comprehensive income for the year under review had been overstated by Rs. 411,199.	This error will be corrected in the next financial year.	Actuarial gains or loss should be correctly identified and properly accounted for according to the standard.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The opening stock of the year under review, which amounted to Rs. 19,302,311, had been recorded as Rs. 16,939,123 in the financial statements, resulting in the profit for the year had been overstated by Rs. 2,363,188.	This error will be corrected in the financial statements for the year of 2024/25.	The value of the opening stock should be accurately calculated and properly accounted for.
(b)	Although the fixed deposit interest income for the year under review amounted to Rs. 56,736,709, it had been recorded as Rs. 58,216,559, resulting in an overestimation of the year's profit by Rs. 1,479,850.	The overestimated amount will be corrected in the financial statements for the year of 2024/25.	The interest income for the year should be accurately calculated and accounted for.
(c)	Due to calculating depreciation at a rate of 15.4 per cent instead of the correct rate of 15 per cent for the infrastructure development costs under property, plant, and equipment, the depreciation expense had been overstated by Rs. 385,370, and the assets had been understated by the same amount.	This error will be corrected in the financial statements for the year of 2024/25.	Depreciation of fixed assets should be accurately calculated and accounted for.

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per the Financial Statements Rs.	Value as per the Corresponding Record Rs.	Difference Rs.	Comments of the Management	Recommendation
The total value of revenue reserves and trade and other payable balances.	561,805,418	562,363,442	558,024	This difference will be corrected in the financial statements for the year of 2024/25.	The balances stated in the financial statements should be adjusted with the balances in the corresponding reports.

1.5.4 Unauthorized Transactions

Details of Unauthorized Transactions	Comments of the Management	Recommendation
Although the company had been paid a bonus of Rs. 1,499,719 to 191 non-permanent employees during the year under review for the year of 2022/2023, the relevant treasury approval had not been submitted to the audit.	In case of the payment of the year- end bonuses, bonuses were also paid to non-permanent employees with the approval of the Board of Directors. The National Salt Company is a manufacturing company, and the company's production and profits have been earned by permanent, contract, casual, and seasonal staff. Since the inception of the bonus (2021), it has been paid to workers and staff without discrimination between permanent, contract, or seasonal categories, with the approval of the Board of Directors.	Bonuses should be paid to non- permanent employees based on treasury approval.

1.5.5 Documentary Evidences not Made Available for Audit

Item Available	Amount	Non- provided Audit Evidence	Comments of the Management	Recommendation
	Rs.			
Expenses	1,800,000	Evidence to confirm the value shown in the accounts as rent payable for the building where the company's head office is operated.	The company's head office is located within the premises of the Ministry of Industries in Narahenpita. However, our institution was re-gazetted under the Ministry of Finance in the year of 2023/24. Accordingly, these provisions have been allocated.	The primary evidence supporting the rent provision payable should be submitted for audit purposes.

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

	Reference to Laws, Rules, Regulations, etc.	Non- compliance	Comments of the Management	Recommendation
(a)	Section 6.6 of the Operations Manual for Public Enterprises was introduced by the Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The financial statements for the year under review had been submitted for audit on 27 September 2024, with a delay of 4 months. As of the date of this report, a draft of the annual report has not been submitted for audit.	There was a certain delay in obtaining data from the salterns during the preparation of the financial statements, and therefore, it was not possible to submit the financial statements on the due date. Actions will be taken to ensure that the financial statements are submitted on time in the upcoming year.	Actions should be taken to submit the financial statements and a draft of the annual report for audit by the due date.
(b)	Section 2 of the Ministry of Finance, Economy, and Policy Development Circular No. PED 01/2020 dated 27 January 2020.	Although executive directors should not be appointed as new recruits, an executive director was recruited to the Company with effect from 11 April 2023, and a total of Rs. 1,597,896 had been paid as salaries and allowances during the year under review without the approval of the treasury.	According to Section 104 of the Companies Act No. 17 of 1982, one of the directors formally appointed by the treasury for the advancement of the Salt Company has been appointed as an executive director based on the necessity of the service. The Board of Directors believes that this position remains essential for the Salt Company.	The recruitment of executive directors should be carried out according to the circular.
(c)	Public Enterprise Circular No. PED 08/2022	When paying allowances for unused leave to employees, it should be comply with the provisions of the Shop and	During the year of 2022/23, Rs. 20 million from the profit of the Company and Rs. 100 million in the year of 2023/24	Payments of incentives related to unused leave should be made in accordance

	dated 21 December 2022.	Office Employees Act No. 19 of 1954, which applies to employees of the public enterprise. Additionally, the state enterprise should not obtain funds from the Treasury for capital and/or recurrent expenses. However, contrary to these conditions, Rs. 764,073 had been paid as allowances for unused leave to 59 permanent officers despite the matters that 42 days of leave were granted annually to employees, and the company received a capital grant of Rs. 100 million from the treasury during the year under review.	were paid to the treasury. Rs. 58 million was paid as income tax for the year of 2022/23, and Rs. 89 million has been allocated for the year of 2023/24. Considering these factors, payments to employees have been made based on the decision of the Board of Directors. This has been continuously paid for a long time.	with the relevant circular provisions.
(d)	Section 2 of the Public Enterprise Circular No. PED 01/2024 dated 28 February 2024, and Section 2.5 of the Public Enterprise Circular No. PED 04/2022 dated 08 August 2022.	Without the approval of the Treasury, and based on the approval of the Board of Directors, a total of Rs. 28,510,500 had been paid as attendance allowances to 402 officers, and an expenditure of Rs. 339,643 had been incurred for accommodation facilities for the Chairman during the year under review.	The management has formulated a policy for this and submitted it for approval to the Department of Public Enterprises on 03 February 2023. Until the approval is received, the payment of the attendance allowance has been approved by the Board of Directors in February 2023. The Board of Directors has approved the payment for the accommodation of the Chairman up to a maximum limit of Rs. 65,000 per month.	According to the circular, allowances should be paid with the approval of the treasury.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 198,229,496, and the corresponding profit in the preceding year amounted to Rs. 134,806,255. Therefore, an improvement amounting to Rs. 63,423,241 of the financial result was observed. Despite an increase in the cost of sales by Rs. 49,771,007, selling and administrative expenses by Rs. 29,537,307, and income tax by Rs. 31,187,712 during the year under review, the increase in salt sales revenue by Rs. 159,432,969 and net financial income by Rs. 14,330,563 had been the main reasons for this improvement.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to the military situation in the Northern and Eastern Provinces, production and operational activities at the Kurunchativu (Elephant Pass - North) salterns, belonging to the Pachchilaipalli Divisional Secretariat in the Kilinochchi District, had been halted and approval to restart these activities had been granted by the Cabinet on 12 December 2017. Accordingly, on 21 July 2022, the Government Valuation Department valued this land at Rs. 205,000,000 and requested the Northern Province Governor for the transfer of the land to the Company through a long-term lease agreement. However, by the end of the year under review, the transfer had not yet been completed. As a result, while there was a suitable infrastructure in place at the salterns to increase domestic salt production and reduce the need for salt imports to meet the country's demand, it had been remained inactive further.	Production activities will be promptly initiated after the legal proceedings in court are concluded.	Necessary steps should be taken to promptly conclude the legal proceedings and initiate production activities.
(b)	The operational plan of the Company for the year of 2023/2024 consisted of 30 sub-activities related to 8 main objectives. Among these, the progress of 7 activities was at 0 per cent, while the progress of 5 activities ranged between 20 per cent and 50 per cent.	Although many activities had been planned, some activities have been reduced in the middle of the year due to prioritization and the existing budget constraints.	Plans should be formulated considering practical conditions, and actions should be taken to complete tasks as planned.
(c)	According to the physical stock inspection conducted at the Elephant Pass salterns on 28 February 2024, by the audit, a stock discrepancy of 408.4 metric tons (approximately) valued at	Investigations have been conducted in this regard, and the relevant employees have been penalized, and steps have	When comparing the existing physical stock with the balance in the stock records as of that date, any discrepancies should be

Rs. 13,548,600 was observed between the actual stock and the stock recorded in the production records as of that date.

also been taken to correct the stock discrepancy.

appropriately adjusted.