

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 2025 comprising the statement of financial position as at 31 March 2025 and the statement of profit or loss and other 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 2025, 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.

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 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 Audit Scope

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 for Small and Medium-sized Entities.

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) In accordance with paragraph 17.2 of the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs), Property, Plant and Equipment (PPE) should comprise tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. However, a payment of Rs.7,101,431 made to the Ceylon Electricity Board for obtaining an electricity connection to the table salt plant at the Elephant Pass Saltern which should be identified as an expense had been incorrectly classified under Property, Plant and Equipment.	Under the "Bulk Supply" category, all expenses related to providing electricity for the Table Salt Plant (TSP) have been recorded. To facilitate a stable and dedicated power supply to the TSP, a separate transformer was installed within the institution's premises. The arrangements have been made to capitalize it under the TSP.	Only the tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes should be identified under Property, Plant and Equipment .
(b) In accordance with paragraph 13.4 of the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs),	The Net Realizable Value (NRV) is always higher than the cost.	According to the standard, inventories shall be measured at the lower of cost and estimated selling price less costs to complete and sell.

inventories shall be measured at the lower of cost and estimated selling price less costs to complete and sell. However, the closing inventory balance amounting to Rs. 125,865,255 had been valued at cost without determining the net realizable value.

- (c) In accordance with paragraph 33.7 of the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs), although it is required to disclose the key management personnel compensation, such disclosure had not been made in the financial statements in the year under review. Necessary arrangements have been made to disclose this information separately from the financial year 2025/26 onwards. Disclosures should be made as per the standard.
- (d) According to Note No. 2.5.3 of the financial statements, work in progress amounting to Rs. 47,021,868 had been recognized from the year under review. However, only the closing work in progress had been identified in the financial statements and the production cost incurred in the last three months had been identified as the closing work in progress instead of recognizing the actual cost of the stock in progress as at 31 March 2025. Further, the accounting policy relating to the recognition of work in progress had not been disclosed in the financial statements according to the requirements of paragraph 10.14 of the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs). The Company has implemented the recognition of Work-in-Progress (WIP) starting from the 2024/25 financial year. All expenses incurred to date have been appropriately allocated to the respective harvesting season as WIP. Upon completion of the harvest, the corresponding costs will be systematically transferred from WIP to the cost of production, ensuring accurate matching of costs with revenue in accordance with applicable accounting principles. It is more appropriate to recognize the salt remaining in the pans as work-in-progress and to include the related costs in the cost of production at the time of harvesting. The actual cost of the stock in progress at the end of the year should be recognized as the closing work in progress and the relevant disclosure should be made as per the standard.

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| <p>(e) Adjustments amounting to Rs. 3,878,937 had been made without restating the comparative amounts contrary to the requirements of paragraph 10.21 of the Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), which mandates the restatement of comparative amounts when correcting prior period errors and it had not been disclosed in the financial statements in accordance with paragraph 10.23 of the standard.</p> | <p>All necessary disclosures relating to the adjustments pertaining to the previous financial year will be appropriately made in the preparation of the forthcoming financial statements.</p> | <p>When correcting prior period errors, comparative amounts should be restated and disclosures should be made as per the standard.</p> |
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1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Depreciation expense for the year under review had been overstated by Rs.4,139,486 due to the calculation of depreciation of machinery and water pumps, computer equipment and furniture using a rate deviating from the rate disclosed in the financial statements.</p>	<p>An incorrect depreciation rate was presented under Note 02 of the financial statements. The correct depreciation rate was recorded in the depreciation schedule, and the error was limited only to the note disclosures made in the note.</p>	<p>Depreciation should be calculated and charged using the correct rates.</p>
<p>(b) The building for table salt plant at Elephant Pass saltern had been completed and handed over to the Company on 16 August 2024. However, the cost of the building amounting to Rs.131,587,112 had been shown in the financial statements under work in progress assets even as at 31 March 2025. Hence, the depreciation thereon and accumulated depreciation had been understated and profit for the year had been overstated by Rs.4,091,818.</p>	<p>Necessary instructions have been issued to ensure that all work carried out properly in accordance with the relevant procedures.</p>	<p>Assets should be accounted and depreciated correctly.</p>

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| <p>(c) The cost and the lease period of the leasehold factory land of Mannar amounting to Rs.42,900,000 had not been confirmed to the audit as the lease agreement had not been presented to the audit.</p> | <p>The Land was transferred to Manthai Salt (Salterns in the Northern Province) in 2001 on a long-term lease basis, and the ownership of the land continued to remain with the government. Accordingly, necessary action has been taken to remove the land value from the company's fixed assets register.</p> | <p>Lease agreement and relevant documents should be presented to the audit.</p> |
| <p>(d) The existence of consumable inventories with a cost of Rs.47,592,824 shown under inventories had not been verified due to the unavailability of the annual stock verification reports. Further, the existence of other inventories amounting to Rs. 5,152,652 included in the consumable inventories as at 31 March 2025 had not been confirmed by the annual stock verification and the stock ledger.</p> | <p>At the end of the financial year, the board of survey of the assets was carried out. During this process, all fixed assets and inventory items were identified. Other inventories amounting to Rs. 5,152,652 is an adjustment made at the end of the 2022/23 financial year, which is not reflected in the physical stock records, and necessary action has been taken to remove this value through the final accounts.</p> | <p>Existence of the inventories should be verified by the annual stock verification and the stock ledger.</p> |

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>(a) Section 6.6 of the Operational Manual for State Owned Enterprises introduced by Public</p>	<p>Although financial statements with draft annual report should be submitted to audit within 60 days after the close of the accounting year, financial statements of</p>	<p>Necessary actions have been taken to ensure timely submission in the future.</p>	<p>The financial statements with draft annual report should be submitted to the audit as prescribed in the Circular.</p>

Enterprise the company for the
Circular No. year under review had
01/2021 dated been presented to
16 November audit on 05 August
2021 2025 with a delay of
02 months and the
draft annual report had
not been presented

- (b) Section 2 of the Ministry of Finance, Economy, and Policy Development Circular No. PED 01/2020 dated 27 January 2020, According to the Circular, executive directors have been refrained from appointing as fresh appointments. However, an executive director had been recruited to the Company with effect from 11 April 2023 and a sum of Rs. 713,925 had been paid as director allowance, telephone allowance and fuel allowance during the period from 01 April 2024 to 10 October 2024 contrary to the circular. It was further observed that a vehicle and a driver had been provided in addition to the said allowances.
- An Executive Director was appointed with the formal approval of the Board of Directors during its term as per the article of association of the company. This appointment was valid upto the end of 2024, and automatically ceased upon the dissolution of the Board at that time. A new Board of Directors was appointed in January 2025, and no Executive Directors were included in its composition.
- The provisions of the Circular should be followed, when recruiting the directors.
- (c) Public Enterprises Circular No. PED 08/2022 dated 21 December 2022. In case of paying allowances for unutilized leave to employees, the number of leave days available in the year had been considered as 42 instead of 21 contrary to the Shop and Office Employees The NSL follows leave as per the establishment code since its inception. The company does not make payments for all accumulated 42 days leave, and payments are made only up to a Allowances paid contrary to the circular should be recovered.

Act No. 19 of 1954. maximum of 10
Accordingly, an days for medical
amount of Rs.500,785 leave and 7 days
had been paid to 40 for vacation leave
officers in the year which are under
under review as leave shop and office act
allowances contrary to

the circular limit. The Board's
provisions. decisions in this
regard were made
with due
consideration of
operational needs
and workforce
engagement.

- (d) Section 3.1 of New allowances or With the formal Allowances paid contrary
the Public amendments to the approval of the to the circular should be
Enterprises existing allowances Board of Directors, recovered.
Circular No. for employees should it was decided to
PED 01/2024 not be introduced provide
dated 28 without obtaining the accommodation
February prior approval of the facilities within the
2024, and General Treasury. Colombo city limits
Section 2.5 of However, a sum of for official use, and
the Public Rs. 654,240 had been the associated
Enterprise paid for expenses were
Circular No. accommodation reimbursed.
PED 04/2022 facilities of the However, it is
dated 08 Chairman during the noted that this
August 2022. year under review reimbursement
without approval of arrangement has
the General Treasury. since been
discontinued, and
no such payments
are currently being
made.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.210,178,523 and the corresponding profit in the preceding year amounted to Rs198,229,496. Therefore an improvement amounting to Rs.11,949,027 of the financial result was observed. The reasons for the improvement

were increase of salt sales by Rs.94,775,837 against the decrease of finance income by Rs. 35,118,727 , increase of selling and distribution expenses by Rs. 12,374,474 and administrative expenses by Rs. 30,791,524.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) A formal letter of appointment, a letter containing the terms of service (TOR) or a list of duties had not been issued to seasonal employees in the salterns at their appointments. Hence, there was a risk of inability to confirm the terms of service and the scope of duties to be fulfilled in legal circumstances.	Company had established job descriptions for permanently appointed labourers. However, seasonal labourers are task-based and aligned with specific performance targets. The company maintains standardized task and target benchmarks for labour activities, which are used to determine daily wages.	A formal letter of appointment, a letter containing the terms of service (TOR) or a list of duties should be issued to seasonal employees in the salterns.
(b) According to the physical stock inspection conducted by the audit at the Elephant Pass saltern a stock discrepancy of 408.4 metric tons (approximately) valued at Rs.13,548,600 was observed between the physical stock balance and the stock records balance as at 28 February 2024. However, action had been taken only to recover Rs.210,000 from three (3) responsible officers in twenty eight (28) monthly installments commencing from August 2025.	The carrying capacity of a tractor hired from external sources was initially recorded as 4.6 tons as per the standard, a discrepancy was identified between the recorded capacity and the actual operational capacity of the tractors. This discrepancy was determined to be a key factor contributing to the shortage in expected material volumes during transportation. The actual loss incurred by the company in terms of labor wages has been charged to those accountable.	Stock discrepancies should be recovered from the responsible officers without a delay.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
(a) According to the Company's specification, the table salt plant includes two packing units of 400 g and 1kg polythene bagging systems with a discharge rate of 2.5 MT per hour and the contractor's plant specification also includes an automatic packing machine with cup fillers and automatic sealing. Despite this feature, ten foot sealer machines had been purchased separately for the table salt plant on 20 March 2025 at a cost of Rs. 1,200,000 (excluding VAT) and these machines had not been used even as at 28 May 2025.	As per the initial plan, sealing machines were procured to ensure smooth and uninterrupted packing during breakdowns or slowdowns of the automated packing machines, serving as a backup. The packing machine supplied by the company did not function properly and a replacement is required. Since the plant is operational, sealing machines are essential to maintain continuity. Manual packing using sealing machines provides significant employment opportunities for the local labor force in the Northern region, supporting regional development. Those are the reasons for purchasing sealing machines.	Purchases of assets should be made after assessing the need.

3.3 Delays in Projects or Capital Work

Audit Observation	Management Comment	Recommendation
(a) An agreement had been entered between the Company and an Indian company having a disreputable history with malpractices and delays in order to supply, delivery, installation and commissioning of a table salt plant at Elephant Pass saltern at a contract price of US \$ 415,000 on 10 May	In line with standard procedures for capital projects of this nature, the final takeover will only take place once all identified shortcomings are fully rectified and the plant is operating according to the agreed specifications. This approach is intended to protect the organizational long-term interests and ensure accountability from the contractor. Once the packaging and sealing issues are resolved, the final takeover	The plant should be handed over promptly.

2023. According to the bidding forms, the supply and delivery should be made within 120 days and the installation and trial runs should be completed within 78 days. However, the plant had not been handed over to the Company even up to 28 August 2025. will proceed without delay.

3.4 Unauthorized Transactions

Audit Observation	Management Comment	Recommendation
<p>(a) Approval had been given by the procurement committee to transport 760 Metric Tons of salt from Elephant Pass to Mannar for the period from December 2024 to May 2025. However, 1264 Metric Tons of salt had been transported during the said period and a sum of Rs.1,360,800 had been incurred exceeding the approval of the procurement committee.</p>	<p>Salt transportation was carried out using suppliers who had been selected through a competitive tender process as substantially lowest and responsive. These suppliers agreed to continue providing transportation services at the previously approved rates. Considering the time constraints and the immediate operational need, initiating a fresh tender process was not feasible.</p>	<p>The procurement process should be followed to purchase.</p>
<p>(b) The Marketing and Sales Representative assigned to Mannar saltern had been recruited on the basis of paying a commission for sales made only in the Mannar and Vavuniya districts. However, he had been paid a commission for sales made in all the districts of Sri Lanka.</p>	<p>NSL initially appointed two Marketing and Sales Representatives and one of them resigned within two weeks, finding the position financially unsustainable. As the performance of the other employee was deemed satisfactory, the General Manager approved expanding sales operations with consultation of</p>	<p>Approval of the board of directors should be obtained for expanding sales operations.</p>

Accordingly, he had been paid a sales commission of Rs.1,700,248 excess to the amount which he should be paid for the year under review without the approval of the board of directors.

chairman to additional districts by mobilizing distributors in line with NSL's production capacity. The payments were calculated based on the income and profit generated for the company, not solely on the efforts of the appointed individual.