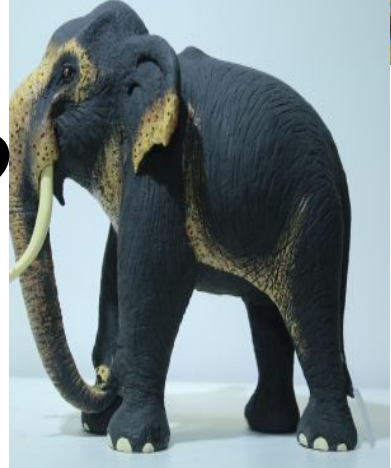




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இலங்கை கைப்பணிப் பொருட்கள் சபை
Sri Lanka Handicrafts Board



වාර්ෂික වාර්තාව
ஆண்டு அறிக்கை
Annual Report
2022





Annual Report 2022

Sri Lanka Handicrafts Board - Laksala

CONTENTS

Background of the Institute	01
Laksala Showrooms Network	02
Vision and Mission	03
Function Review and Operational Review	04 - 09
Board of Directors	10
Senior Management Team	11 - 12

FINANCIAL STATEMENTS

Year at a Glance	14
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Notes to the Financial Statements	19-37
Auditor General's Report	39-49

BACKGROUND OF THE INSTITUTE

Name of the Institute

Sri Lanka Handicrafts Board - Laksala

Statutory Nature

Under the National Crafts Council and allied Institutions Act No. 35 of 1982

Head Office

No : 215, **Buddhaloka Mawatha**, Colombo 7.

Telephone : 011 2557132 / 011 2055501

Fax : 011 2594872

Sales Inquiries

e-mail : info@laksala.gov.lk

Web : www.laksala.gov.lk

Sales Information

Telephone : 011 2597797

e-mail : info@laksala.gov.lk

Audit

Auditor General's Department

Bankers

Bank of Ceylon

Peoples' Bank

Sri Lanka Handicrafts Board

LAKSALA SHOWROOMS NETWORK

1. Fort	No. 60, York Street, Colombo 01.	011-2323514
2. Thummulla	No. 215, Bauddhaloka Mawatha, Thummulla, Colombo 07.	011-2580579
3. Kandy	No.05, Sangharaja Mawatha, Kandy.	081-2222087
4. Katubedda	No. 282, Galle Road, Katubedda, Moratuwa.	011-2605600
5. National Museum	Laksala, Museum premises, Colombo 07.	011-2698263
6. Battaramulla	Ape Gama, Pelawatta, Battaramulla.	011-2786026
7. Welipenna I	Southern Express Way, Stopover Service area “B”, A5 and A6 Walagedarak, Welipenna.	034-2241607/8
8. Galle	No.74/1, Samudra Mawatha, Galle.	091-2222783
9. Pinnawala	Elephant orphanage, Pinnawala.	035-2265015
10. Peradeniya	No.14, Botanical Garden, Peradeniya.	081-2389253/63
11. Katunayake	54D, Transit Zone, Bandaranaike International Airport, Katunayake.	011-2260167
12. Nuwareliya	No. 79 Old Udupussellawa Road, Nuwareliya.	052-2234445

Our Vision

To be the leader in the gift and souvenir items market in Sri Lanka.

Our Mission

To be a commercially viable institution of social responsibility expanding the growth potential in the sphere of gifts and souvenir items and opening up large scale marketing opportunities to rural manufacturers with high value added contribution to the tourism industry.

Our Core Values

- Quality, credibility and value for money.
- Affording opportunities for the best consumer choice through a diversified dimension.
- Value creation and exchange of values among rural community.
- Making the consumer extremely delightful.

Sustainable Development Goals

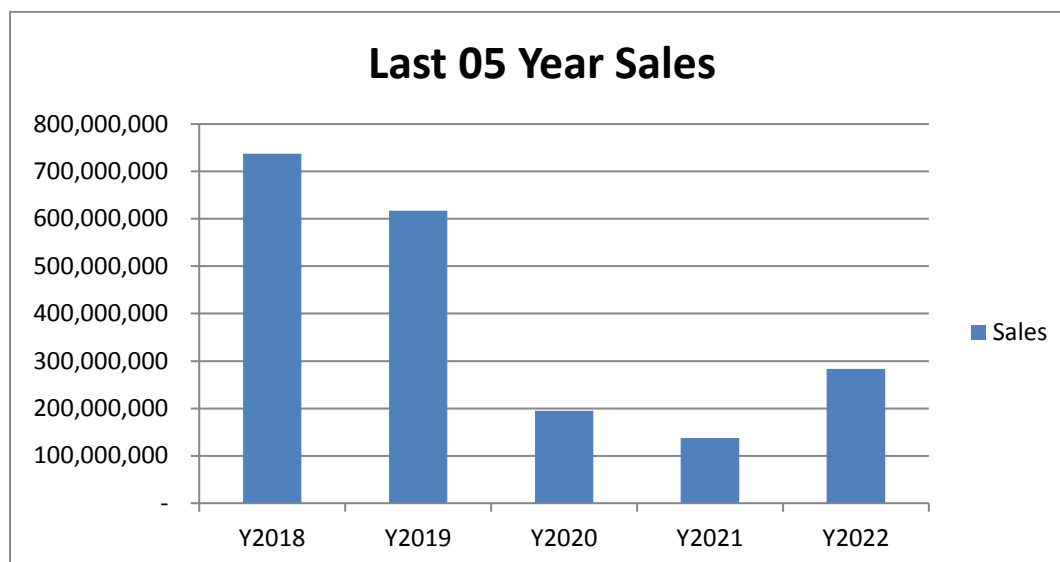
- Promote the local creations by doubling the number of products purchased from local suppliers by 2030.
- To strengthen the women entrepreneurship to Increase the total number of female suppliers by 50% and match the gender equality by 2030
- Increase the number of suppliers who are identified as “peoples with special needs” by 25% in 2030



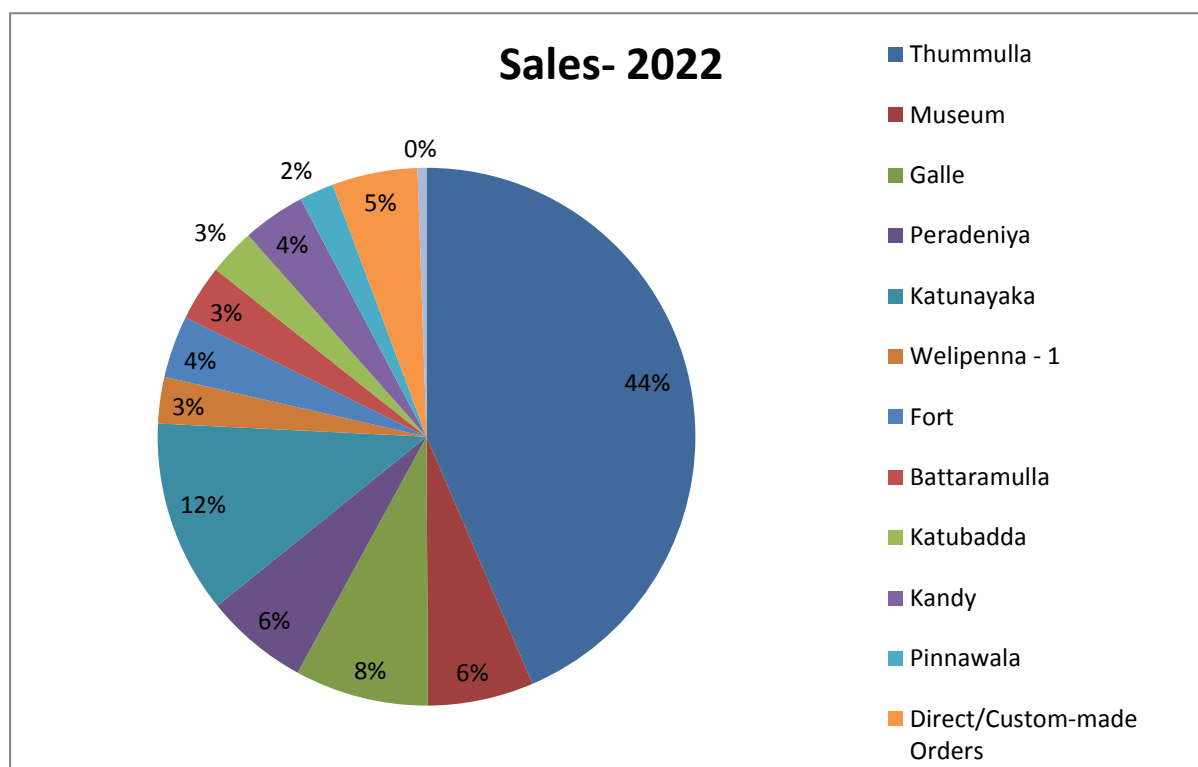
Laksala was established in 1964 with the objective of opening up international as well as domestic market opportunities and it was established under the National Crafts Council and Afiliated Institutions Act No. 35 of 1982 as Sri Lanka Handicrafts Board. At present Laksala has become the oldest and largest state owned business network in this field.

Summary of Financial Performance

Within the year under review of 2022, Laksala has reported a total turnover of Rs.283,623,048.00, and its total sales turnover is Rs. 113,608,044.00. The graph below denotes the total sales summary of the Laksala within the last 05 years.

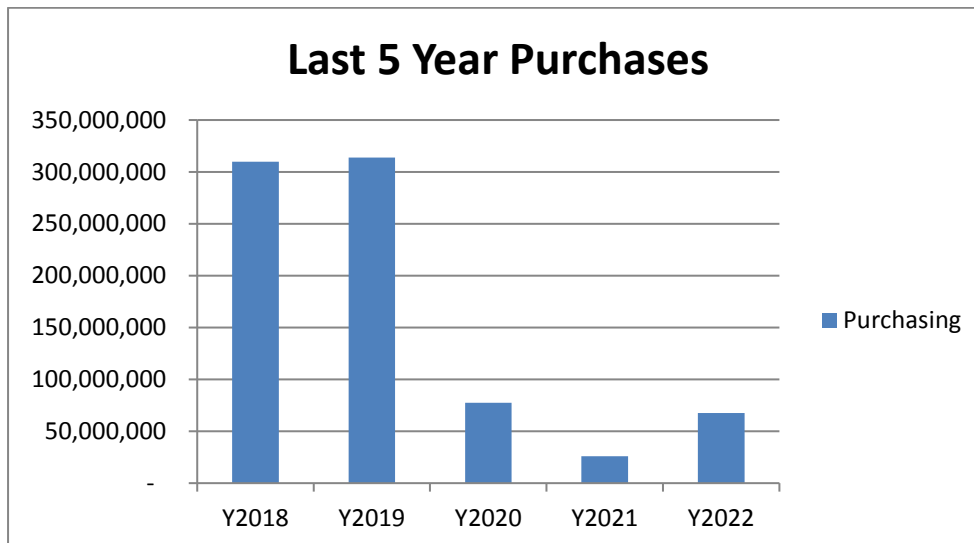


When analyzing sales in the year 2022, Thummulla Laksala Showroom has given the main contribution having made sales amounting to Rs. 123,515,057.00 and the Katunayake and Galle Laksala showrooms have made higher contributions having recorded sales turnover amounting to Rs. 32,888,767.00 and 22,808,891.00 respectively in the year 2022.

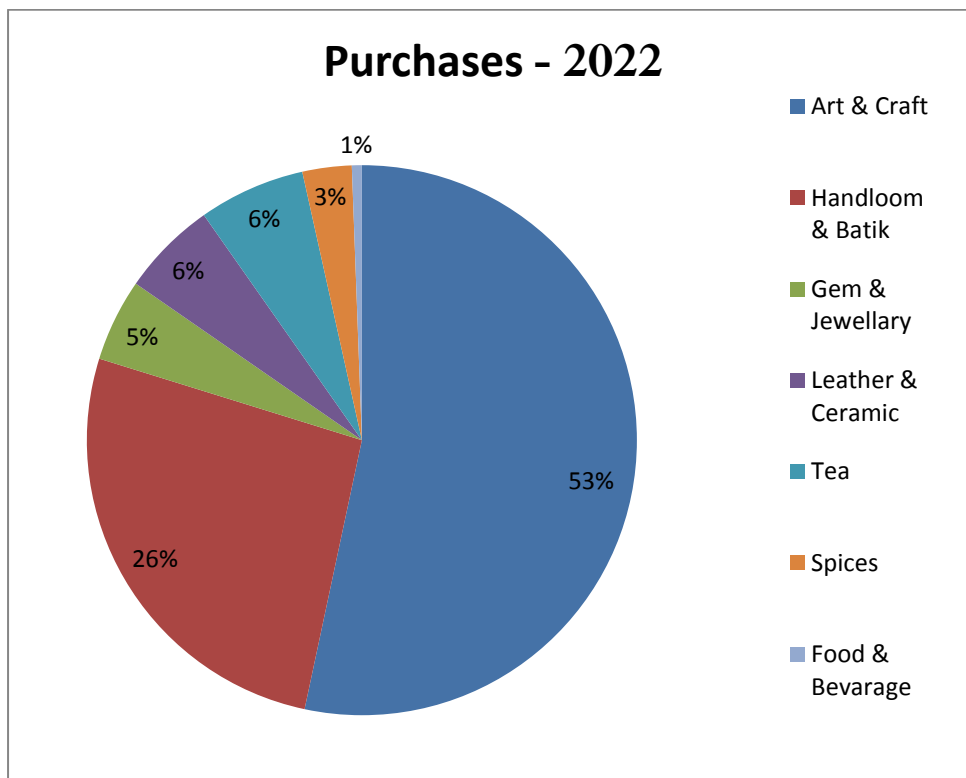


Analysis of Purchasing

In the year 2022, the Laksala has made trade purchasing amounting to Rs. 67,451,636.25. The below graph indicates the trade purchasing within the last five years.



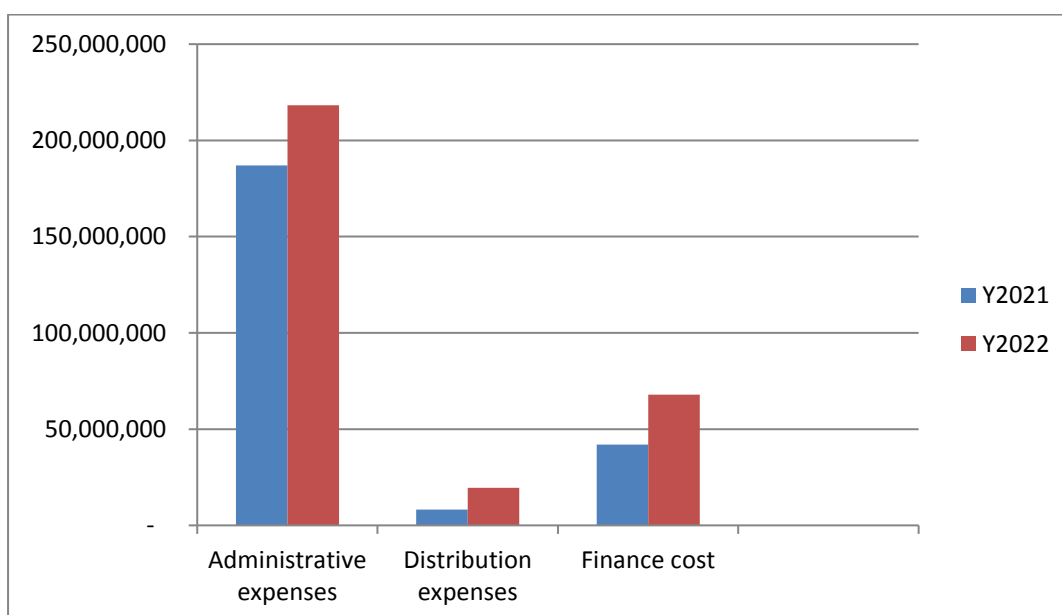
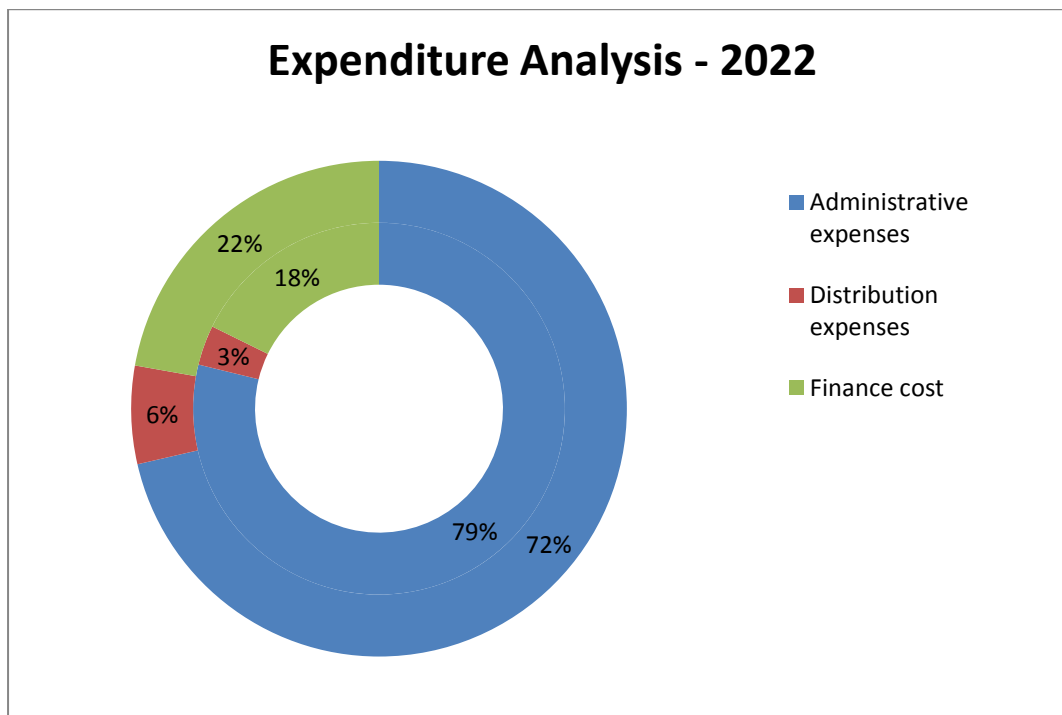
As per the item classification of the following graph, the purchasing relevant to the year 2022 is further indicated. A higher percentage of trade purchasing represents arts and crafts.



Expenditure Analysis

Expenses	Y2021	Y2022
Administrative expenses	187,070,962	218,216,410
Distribution expenses	8,239,659	19,533,586
Finance cost	42,050,371	67,879,043
	237,360,992	305,629,039

The following graphs indicate the composition of the total expenditure compared to the previous years.



PERFORMANCE REVIEW – YEAR 2022

Background

I am pleased to present the review of the performance of the Sri Lanka Handicrafts Board - Laksala 2022. Laksala was commenced in the year 1964 with a view to creating international market opportunities for the local craftsmen and which was later established as the Sri Lanka Handicrafts board under the National Crafts Council affiliated institution Act. It has also become the state owned oldest and biggest business chain of its kind in the country.

Strategic initiatives

Laksala strengthened the restructuring process placing emphasis on further increasing in turnover and profitability as well as the customer base required for the sustainable existence in the sector and also the measures taken to do the necessary tasks suited with the needs and demand were also strengthened: namely,

- Securing a new market place by means of category expansion process.
- Establishing the name of the institute through branding process
- Building positive attitudes among the staff as required for the customer friendly service.
- Further enhancing the online sales facilities
- Organizing to attract foreign tourists to Laksala showrooms by way of continuous maintenance of relationship with the institutions such as Sri Lanka Tourist Board and Sri Lanka Tourists Promotions Bureau and other private sector tourist businesses

The range of products sold in Laksala showrooms under Laksala trade name was further expanded and facilities to local and foreign customers to purchase them as quality and high standard gifts and souvenirs will be further expanded. Accordingly, necessary steps were taken to attract customers to the institute by way of expanding the marketing activities required to maintain the recognition as one and only state and commercial entity in the gift and souvenir market of local & foreign tourists.

Establishing the Brand of the Institute within the Market through Branding Process

Laksala has modernized its showrooms suited to the current market requirements. Accordingly, it has been able to increase the showcase of items by introducing novel products under the Laksala brand and achieve sales target under branding process.

Establishing Sound Attitudes in the Staff Required for a Friendly Customer Service .

Laksala needed a staff which could perform befitting the new market requirements and rendering customer friendly service and accordingly action was taken to provide with necessary training and motivation whereby increasing their efficiency. Accordingly, salaries and bonus are determined on their skills, efficiency and productivity. This condition has immensely been helpful to the institution to fulfill its objectives further.

Expanding of the manufacturing items

Not only the activities of the institution, but the other tasks pertaining to the expansion of the product are carried out under the restructuring process closely aligned with the National Design Centre, the National Crafts Council by way of producing and introducing new designs in high quality to the current market requirements safeguarding the local manufacturing identity, to include the gifts and souvenirs such as Gems and Jewelry ,tea, spices, leather products, ceramics as well as local masks and the other souvenirs, and steps were taken to launch new creations of the gifts and souvenir section through the introduction of new handicrafts by the Laksala Innovative Designs Division.

Supply Network

The Laksala supply network comprises of purchasing of gifts and souvenirs for sale, manufacturing of them, planning, quality control and supply of new designs as well. The number of 274 active craftsmen by the end of the year 2021 has further increased in this year. New manufactures were induced to enter into this field by way of upgrading new business opportunities.

Administration

Sri Lanka Handicrafts Board- Laksala was operated in compliance with Acts, Government Circulars and other Financial and Administrative directives issued with regard to its aggregate operations and ensured the following of good governance and procurement guidelines. Administration Division is responsible for the management of Human resources towards achieve the goals and objectives of the organization as well as to provide other supporting services. There are 107 employees during the year under review. Details are given below.

Total Strength as at 31/12/2021

Senior Level	08	
Secondary Level	08	
Tertiary Level	52	
Primary Level	<u>09</u>	77
Contract Staff		<u>30</u>
Total		<u>107</u>

Comparing with the previous year, staff has been decreased from 118 to 107 In the effort for implementing a well-designed short, medium and long term business plan in the competitive business environment; building up of a well-trained, committed and efficient work force has become crucial.

Therefore, actions have been taken to improve the quality and the productivity of the sales and sales assistant employees through implementing training and development programs.

However, it is expected that arrival of tourists in 2023 will be back to normal thus it has been planned to implement all the strategies required to further develop marketing activities under a new business plan as a self-financing entity.

SRI LANKA HANDICRAFTS BOARD -LAKSALA
Board of Directors

No.	Board of The Board Director	Period of Appointment	
		From	To
1.	Mr. Sajith M.Kodikara	03.01.2020	02.05.2023
2.	Mrs. Madhumali Alwis (Attorney at Law)	03.01.2020	02.05.2023
3.	Mr. K. L. Mahinda Samaratunga	03.01.2020	09.01.2023
4.	Mrs. N.P.A.R. Jayawardena	24.01.2020	02.03.2022
5.	Mr. D. Jeewanadan	09.10.2020	present
7.	Mr. Lakmal Wickramaarchchi * (Attorney at Law)	11.11.2020	23.12.2022
8.	Mr. Sanjeewa Dharmawardena	08.06.2021	02.05.2023

* Has been served as a Board of Directors member and the Chairman of Sri Lanka Handicrafts Board – Laksala.

SRI LANKA HANDICRAFTS BOARD –LAKSALA

Senior Management Team

Mr. C.N. Dahanayake	Managing Director / Director (Human Resource and Administration)
Mr. K.C.Jayawardhana	Director (Sales)
Mr. E. Allen Dellican	Acting Director (Finance)
Mr. Sampath Senevirathna	Director Acting (Supply Chain Management)
Mrs. Vajira Samararatna	Deputy Director (Procurement)
Mrs. Devika Athukorala	Deputy Director (Distribution)
Mr. A.L.M. Rizwan	Assistant Director (Income and expenditure)
Mr. Gayan Liyanage	Assistant Director Acting (Human Resource and Administration)
Mr. Dinesh Abeykoon	Head of Branch- Information Technology

OUR GRATITUDE

Firstly, on behalf of Laksala, I would like to pay my heart felt gratitude to His Excellency the President of the Democratic Socialist Republic of Sri Lanka, Hon. Prime Minister, and the Hon. State Minister of Batik, Handloom & Local Apparel Productions. I would also like to extend my gratitude to the members of the Board of Directors for taking proper decisions giving conclusions with the utmost intension of upgrading the institution to a higher place in the field.

Similarly, I would extend my gratitude to the Secretary to our Ministry for his ready assistance for the progress of our institute.

I also would remind and appreciate the Heads of Branches who directed their staff effectively towards administration, financial and marketing activities as well as the other members of the staff for their dedication to day today efficient and effective activities of our institute.

I would like to extend special thanks to the craftsmen for being with us having identified potential customers and introduce novelty products as well as supplying traditional and novelty handicrafts and souvenir items. Our special thanks to valued foreign and local customers for the trust kept with our institute.

I would like to state that every possible step will be taken in future to further strengthen the rural economy in Sri Lanka and to upgrade the living standards of the rural community by our institution and finally we are expecting to increase sales up to Rs.one billion in coming years.

Further, according to a strategic plan prepared to obtain the efficient and effective contribution of entire strength through gradual management of physical as well as human resources, it is planned to maintain our profit margin at a growing level in the year 2023 by significantly reducing the overhead cost of the institute.

Chairman,

Sri Lanka Handicrafts Board - Laksala

SRI LANKA HANDICRAFTSBOARD

**FINANCIAL STATEMENTS
31 DECEMBER 2022**

2022

SRI LANKA HANDICRAFTS BOARD

NOTE TO THE FINANCIAL STATEMENTS

Revenue analysis for the year 2022

YEAR AT A GLANCE- Global context & the Sri Lankan economy

The year 2022 was a period where the Global economy was recovering from the outbreak of the COVID-19 pandemic situation & Sri Lanka was also gradually retuning to a slow normalcy.

The tourism industry was badly affected from the year 2019 with the Easter Sunday attack and the pandemic situation in 2020/2021. The period 2022 Sri Lanka went through a political set-back and local unrest along with the fuel crisis worsened the economic crisis. In the center of all the economical and political situation Laksala revenue was further affected as tourist arrivals were hampered due to road blocks and political unrest. In the 2022 accounting year Laksala started regaining the sales pattern in the 1st quarter. But could not maintain the momentum as suppliers were not financially stable to produce trade goods and supply to Laksala. Under these circumstances Laksala had to struggle throughout the year without much supplier purchases and in return it was another reason for the revenue drop.

Laksala quarterly Revenue – 2022

1st quarter – Rs.81mn

2nd quarter – Rs.58mn

3rd quarter – Rs.61mn

4th quarter – Rs.83mn

Below given graph shows the gradual and slow recovery after COVID-19 and other external factors.



Laksala sales revenue of Rs.285mn in 2022 was a significant increase by 108% compared with the year 2021. The administrative expenses were Rs.218mn which is an increase of Rs.31mn (16%). The Selling and distribution cost for 2022 was Rs.16.4mn compared to Rs.8.2mn in 2021 and is an increase of approximately 100%. The increase in expenditure in the year 2022 justifies the curtailed operation in 2021 and the gradual increase in revenue and expenditure in 2022. Even though the SLHB P&L shows an increase in the Net.loss in 2022 from Rs.58 Mn loss in 2021 to Rs.99 Mn in 2022, it is due to the Treasury grant awarded in 2021 for Rs.82 Mn. Comparatively the operational loss in 2021 would have been approximately Rs.141 Mn if not for the grant.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

		2022	2021
	Notes	LKR	LKR
Revenue	3	283,623,048	137,495,835
Cost of sales		(113,608,044)	(70,979,440)
Gross profit		170,015,004	66,516,395
Grants received		-	82,905,000
Interest on Saving Accounts	4	68,432	-
Other income	5	36,504,933	29,392,750
Administrative expenses	6	(218,216,410)	(187,070,962)
Selling & distribution expenses	7	(19,533,586)	(8,239,659)
Results from operating activities		(31,161,627)	(16,496,476)
Finance cost	8	(67,879,043)	(42,050,371)
Profit before tax		(99,040,670)	(58,546,847)
Profit for the year		(99,040,670)	(58,546,847)

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Notes	2022 LKR	2021 LKR
Assets			
Non-current assets			
Property, Plant & Equipment	09	777,610,291	829,595,922
Total non-current assets		777,610,291	829,595,922
Current assets			
Inventories	10	483,901,901	545,265,950
Trade and other receivables	11	89,980,444	106,938,043
Cash and cash equivalents	12	53,477,494	37,790,147
Total current assets		627,359,839	689,994,140
Total assets		1,404,970,130	1,519,590,062
Equity and liabilities			
Equity			
Stated capital		69,628,878	69,628,878
Capital reserves		510,806	510,806
Revaluation reserves		454,366,157	454,366,157
Capital grants		107,951,172	107,951,172
Retained earnings		(281,916,107)	(184,017,430)
Total equity		350,540,907	448,439,584
Non-current liabilities			
Retirement benefit obligations	13	57,679,530	56,925,460
Deferred income	14	8,824,711	24,164,714
Long term borrowings	15	374,306,377	383,781,882
Total non-current liabilities		440,810,618	464,872,056
Current liabilities			
Trade and other payables	16	456,650,784	482,273,952
Income tax payable	8	21,798,486	21,798,486
Short term borrowings	17	134,183,223	101,219,872
Bank overdrafts	18	986,112	986,112
Total current liabilities		613,618,605	606,278,422
Total liabilities		1,054,429,223	1,071,150,478
Total equity and liabilities		1,404,970,130	1,519,590,062

.....
Mr.E. A. Delilkan
Director Finance(Acting)

The Accounting policies and Notes form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. The Financial Statements were approved by the Board of Directors and signed on their behalf on **2023.06.23** at the Board meeting held in Laksala Thummulla, Colombo 07

.....
Ms.R.K.L.Jagoda
Board Member

.....
Mr.D.Jeevanadan
Board Member

.....
Mr.Rushan Marabage
Chairman

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Stated capital		Capital reserves		Revaluation reserves		Capital grants		Retained earnings		Total equity	
	LKR		LKR		LKR		LKR		LKR		LKR	
Balance as at 1 January 2021	69,628,878		510,806		454,366,157		107,951,172		(125,845,784)		506,611,229	
Adjustments to prior year errors	-		-		-		-		375,201		-	
Profit for the year									(58,546,847)		(58,546,847)	
Balance as at 31 December 2021	69,628,878		510,806		454,366,157		107,951,172		(184,017,430)		448,439,584	
Adjustments to prior year errors									1,141,993		1,141,993	
Profit for the year	-		-		-				(99,040,670)		(99,040,670)	
Balance as at 31 December 2022	69,628,878		510,806		454,366,157		107,951,172		(281,916,107)		350,540,907	

Notes from pages 9 to 28 form an integral part of these financial statements. Figures in brackets indicate deductions.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

	Notes	2022 LKR	2021 LKR
Cash generated from operations			
Profit before tax		(99,040,670)	(58,546,847)
Adjustments for:			
Gratuity balance Adj 2020		-	(1,393,899)
Building Development Adj.2020			277,696
Retirement benefit obligations		2,827,910	3,682,500
Interest expenses		67,703,833	41,938,619
Depreciation		26,475,424	26,440,306
Interest On saving Accounts		(68,432)	-
Amortization of capital expenditure costs		25,590,180	25,590,164
Prior Year Adjustment		1,141,993	375,201
Grants amortised		(15,340,000)	(25,340,004)
		9,290,238	13,023,737
Changes in working capital			
Inventories		61,364,049	73,943,636
Trade and other receivables		16,957,599	(35,853,026)
Trade and other payables With Tax		(25,623,168)	(39,295,657)
Cash generated from operations		61,988,718	11,818,689
Gratuity paid		(2,073,840)	(1,567,120)
Interest paid		(67,703,833)	(41,938,619)
Net cash generated from operating activities		(7,788,955)	(31,687,050)
Cash flows from investing activities			
Interest On saving Accounts		68,432	-
Purchases of property, plant & equipment		(79,978)	15,216,310
Net cash used in investing activities		(11,546)	15,216,310
Cash flows from financing activities			
Long/short term loans obtained		26,030,434	115,135,218
Loan repayments		(2,542,587)	(84,509,657)
Net cash used in financing activities		23,487,847	30,625,561
Net increase/(decrease) in cash and cash equivalents		15,687,347	14,154,821
Cash and cash equivalents at the beginning of the year		36,804,035	22,649,214
Cash and cash equivalents at the end of the year		52,491,382	36,804,035
Bank overdrafts	18	(986,112)	(986,112)
Cash in hand and at bank	12	53,477,494	37,790,147
		52,491,382	36,804,035

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.0 Company

Sri Lanka Handicrafts Board (“SLHB” or “Laksala”) popularly known and operating under the trade name “LAKSALA” is the only state owned organization marketing handicrafts that are produced throughout Sri Lanka.

1.1 Principal Activities and Nature of Operations

Principal activities of SLHB are marketing and selling of gift and souvenir items to the local and foreign market

2. GENERAL ACCOUNTING POLICIES

2.0 Basis of Measurement

The Statement of financial position, statements of comprehensive income, statement of changes in equity and statement of cash flows, together with accounting policies and notes (Financial Statement) of the Board as at 31 December 2022 and for the year ended, have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka.

These financial statements have been prepared under the historical cost convention, except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. All values are presented in Sri Lankan Rupees.

2.1 Use of Accounting Estimates, Assumptions and Judgments

The preparation of Financial Statements are in conformity with LKAS (Sri Lanka Accounting Standards) and SLFRS which requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

2.2 Going Concern

When preparing the Financial Statements, we have made an assessment of the liability of the organization to continue as a going concern in the foreseeable future. We do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future.

2.3 Comparative Information

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year and reclassified for fair presentation where required.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial Statements, and have been applied consistently by the Board.

2.4.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or accounted as receivable net of trade discounts and applicable taxes.

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the time of transaction.

Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are converted to Sri Lankan Rupees at the foreign exchange rate ruling at that date.

2.4.2 Property, Plant and Equipment

a) Recognition and Measurement

Basis of recognition of property, plant & equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the company & the cost of the asset can be reliably measured.

Property Plant and Equipment other than land are stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self -constructed assets includes the cost materials, direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Where an item of property, plant and equipment comprise major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The carrying values of property, plant & equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Any gains and losses upon disposal of items of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in statement of comprehensive income.

Lands & building owned by the Department of Small Industries were vested to srilanka handicrafts board in 1993. This included 11 (eleven) Properties valued for Rs.112,330,000/= When SLHB was restructured in 2012-2013 Three (3) properties were vested to the National Craft council by a Cabinet decision valued for Rs.20,700,000/= & the balance remains in the SLHB balance sheet.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

b) Depreciation

The provision for depreciation is calculated using a straight line method on the cost of all property, plant and equipment other than freehold land, in order to write off such amounts over the estimated useful lives.

The principal rates used are as follows.

1. Building	2.5%
2. Machinery Equipment	10%
3. Inventory Articles	10%
4. Furniture & Fittings	10%
6. Computer Hardware & Software	20%

* Until the year 2018 the depreciation on computer items was done using a straight line method. But in the year 2019 Laksala had to use the reducing balance method because the depreciation value when calculated in the straight line model was surpassing the cumulative total value as these items had been purchased more than 8 years ago. Thereby from 2019 onwards the reducing balance method has been implemented.

c) Profit / Loss from Sales of Property, Plant and Equipment.

Any gains or losses on retirement or disposal of property, plant and equipment are recognized in the period in which the sale occurs and is classified as other operating Income.

d) Grant amortization rate & depreciation of building development expenses have been adjusted accordingly preventing unnecessary income or expenditure coming in to the P & L through the difference of grant amortization & depreciation of building developments expenditure.

2.4.3 Capital Work in Progress

Capital expenses incurred during the year, which are not completed as at the date of the financial statements are shown as advance payments, whilst the capital assets which have been completed during the year end put to use have been transferred to property, plant and equipment.

2.4.4 Intangible Assets

Intangible assets that are acquired by SLHB, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

a) Basis of Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and cost can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

b) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the income Statement as incurred.

c) Retirement and Disposal

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

d) Amortization

Amortization is recognized in the income statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

2.4.5 Impairment

The carrying amounts of SLHB's assets are reviewed at each of the financial statements balance sheet date to determine where there is any indication of impairments. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

2.4.6 Trade and Other Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.4.7 Inventories

Inventories are valued at the lower of cost and net realizable value, after making provision for obsolete and repairable items. Cost is determined using the Weighted Average Cost (WAC) method. Net realizable value is the price at which inventories can be sold in the ordinary course of business.

2.4.8 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand and short term highly liquid investments, readily convertible to known amounts of cash for the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and net of outstanding bank overdrafts, short term borrowings and short term investments.

2.4.9 Cash Flow Statement

The cash flow statements have been prepared using the indirect method in accordance with Sri Lanka Accounting Standard No. LKAS07 – Cash flow statement.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

2.4.10 Employee Benefits

a) Defined Benefit Plan – Retirement Gratuity

The liability for Retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 108 employees of the organization in the period of 2022. In order to meet this liability a provision is carried forward as at the date of the financial statements equivalent to an amount calculated based on a half month salary of the last month of the financial year of all employees for each completed year of service commencing from the first year of service. The resulting difference.

between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the statement of comprehensive income.

b) Define Contribution Plan -Employee's provident fund & employee's trust Fund.

Employees are eligible for Employees Provident Fund contribution and employees' trust fund contributions in line with respective statutes and regulation. SLHB contributes 12% and 3% on gross employments of employees to employee's provident fund and employee's trust fund respectively.

2.4.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

2.4.12 Liabilities and Provisions

Liabilities and provisions are recognized in the financial statements when there is a present legal /constructive obligation as a result of the past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year from the financial statements date are treated as current liabilities in the financial statements. Liabilities payable after one year from the financial statements date are treated as non-current liabilities in the comprehensive statement of financial position.

a) Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Laksala had been following the policy of recording liabilities in the books of accounts at the time of raising goods received notes for all purchases including consignment stocks. However, payments are made to consignment creditors only when the respective consignment stocks are being sold.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

2.4.13 Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the country where SLHB operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Sale of Goods

Revenue from the sales of goods is measured at fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably and there is no continuing management involvement with goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sales.

Other Operating Income

- a) Profit and loss from sale of property, plant and equipment.
- b) Any gains or losses on retirement or disposal of property, plant and equipment are recognized in the period in which the sales occur and are classified as other operating income.

Grants Received

If the Government grant relates to an expense item, it is recognized as income over the period necessary to match to the costs, that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Capital Grants Received

Capital grants received have been recognized as deferred income and amortized over a period of 10 years.

Recurrent Grants Received

Grants relating to income may be reported separately as 'other income' or deducted from the related expense.

2.4.14 Expense Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the purpose of presentation of the income statement, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the organizations performance.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

a) Recurrent Expenditure

The profit earned by the board as shown in the income statement is after providing for all known liabilities and for depreciation of property, plant and equipment.

b) Capital Expenditure

Expenditure incurred for the purposes of extending or improving assets of a permanent nature by means to carry on the business or for the purposes of increasing the earning capacity of the business has been treated as capital expenditure.

Gains or losses of revenue nature on the disposal of property, plant and equipment have been accounted for in the Income statement.

2.4.15 Borrowing Costs

Borrowing costs are recognized as an expense in the year in which they are incurred.

2.4.16 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrences or non-occurrence of uncertain future events, which are beyond the board's control.

2.4.17 Events Occurring After the Balance Sheet Date

All material post balance sheet events have been considered disclosed and adjusted where applicable.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue

	2022	2021
	LKR	LKR
Showroom sales		
Thummulla	123,515,057	53,131,642
Museum	18,066,992	6,117,605
Galle	22,808,891	9,350,552
Peradeniya	17,655,278	6,432,911
Katunayaka	32,888,767	6,742,306
Fort	10,614,864	9,736,767
Welipenna - 1	7,922,129	4,465,532
Battaramulla	9,514,277	3,719,753
Kandy	10,732,566	3,320,564
Katubadda	7,929,004	4,318,325
Pinnawala	5,873,549	2,067,206
Nuwara Eliya	1,530,948	1,343,977
Total showroom sales	269,052,322	110,747,140
Direct/custom made orders	14,570,726	26,748,695
	283,623,048	137,495,835
Nation building tax (NBT)	-	-
	283,623,048	137,495,835

4. Investments

Interest on saving account	68,432	66,412
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5. Other income

	2022	2021
	LKR	LKR
Rental income	20,174,168	3,910,627
Grant Amortization Income	15,340,003	25,340,004
Foreign exchange gain	990,762	75,707
	36,504,933	29,392,750

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

6. Administrative expenses	Note	2022 LKR	2021 LKR
Salaries & Allowance *		71,541,865	66,552,828
Incentive		-	96,000
E.P.F. & E.T.F.		9,199,595	9,593,951
Gratuity		2,827,910	3,682,500
Transport Allowance		9,524,741	5,276,175
Directors Fees & Board Meeting Expenses		454,625	467,482
Audit Fees/Professional Fees		900,000	1,219,200
Legal Fees		264,500	155,000
Security Charges		9,157,393	5,399,593
Rent & Rates *		19,679,069	12,056,104
Electricity		7,624,906	7,741,522
Deprerciation		26,475,424	26,440,306
Building Development Amortization-Exp		25,590,180	25,590,164
Cleaning Services		6,039,163	4,911,651
Other Staff Cost *	6.1	7,210,644	3,946,858
Other Operational Cost *	6.2	21,726,395	13,941,628
		218,216,410	187,070,962
Subnote 6.1			
Included under other ataff cost *		2022 LKR	2021 LKR
Overtime		1,879,207	283,127
Staff Welfare		3,000,638	1,743,422
Cash Security Interest		206,347	214,999
Staff Training		53,200	-
Medical Expenses		2,071,252	1,705,310
VRS		-	-
		7,210,644	3,946,858

* The increase in salaries & allowances expenses of Rs,5 Mn when compared with year 2021 was due to the Rs.5000 salary increment done as per the Treasury circular No EST/5/4/24(XL) dated 13-01-2022.

* The increase in rent & rates expenses are depicted approximately by Rs.7 Mn in the year 2022 compared with year 2021.this has been due to the Concessions provided by Air port Aviation & canovin showroom rents in the year 2021.also in the year 2022 the Air port Aviation katunayaka rent expenses increased due to the increase in Doller rates.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

Subnote 6.2	2022	2021
Included under other operation cost *	LKR	LKR
SSCL tax Expences	989,444	
Advertisement	445,973	564,365
Printing & Stationery	2,083,958	1,032,132
Postage/Tele/Telex	9,012,214	9,070,246
Fuel & Lubricants	1,936,575	704,042
Stock Verification	20,460	175,374
Trade Licence Fees	479,620	-
Computer Expenses	138,057	260,890
Insurance	138,980	55,764
Water Bill	413,000	337,721
Rep & Maint - Building	990,980	1,246,317
Rep & Maint - Machinery	1,617,899	223,081
Vehicle Rental Charges	768,392	-
Translation Fess	49,150	
Concession Fees	2,641,668	266,571
Stamp Fees	25	5,125
	21,726,395	13,941,628

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

7. Selling & distribution expenses	Nots	2022 LKR	2021 LKR
Guide Commission		8,708,059	2,146,897
Credit card Commission		3,332,395	1,386,182
Packing Materials Locals		1,929,021	749,333
Business Promotion		1,279,581	557,062
Rep.& Main.Purchase Goods		143,763	114,993
Exhibition and Trade Fair		2,156,125	868,000
Travelling Expenses		1,897,211	1,144,457
Registration Fees		3,000	-
Valuation Expenses		10,000	1,010,149
Insurance & Freight Charges		74,431	171,103
Special Order Expenses		-	91,483
		19,533,586	8,239,659

	2022 LKR	2021 LKR
8. Finance costs		
Bank charges	175,210	111,752
Loan interest -Boc *	48,800,009	26,703,053
-Rdb	18,903,824	15,235,566
	67,879,043	42,050,371

* Loan interest was charged only for 3 main loans which was available in the beginning of year 2021.due to providing monotoriums during the pandemic period.the loan interest was effected along with the monotorium loan interest in the year 2022.which resulted in the increase of interest expenses in 2022 compared to year 2021.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

09. Property, plant and equipment

	Notes	2022		2021									
		LKR		LKR									
Freehold assets	9.1	630,170,527		656,565,973									
Building development costs	9.2	147,439,764		173,029,950									
		<u>777,610,291</u>		<u>829,595,923</u>									
9.1 Freehold assets													
	Land	Buildings	Plant & machinery	Furniture fittings & office equipment	Computer equipment	Articles	Software	Capital work in progress	Total				
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR				
Cost or valuation													
Balance at 1 January 2021	396,037,214	248,797,761	100,907,491	60,179,729	33,412,316	33,399,357	-	45,451,390	918,185,258				
Additions		-	-	-	-	32,266	-	-	32,266				
Adjustments	(15,248,575)				(10,193,250)		10,193,250		(15,248,575)				
Balance at 31 December 2021	380,788,639	248,797,761	100,907,491	60,179,729	23,219,066	33,431,623	10,193,250	45,451,390	902,968,949				
Additions		(666,662)							(666,662)				
Balance at 31 December 2022	380,788,639	248,131,099	101,029,991	60,179,729	23,780,056	33,494,773	10,193,250	45,451,390	903,048,927				
Depreciation													
Balance at 1 January 2021	-	46,254,906	73,215,652	46,487,825	30,755,509	23,248,778	-	-	219,962,670				
Adjustments					(10,193,250)		10,193,250		-				
Charge for the year	-	6,203,277	10,090,749	6,017,973	787,923	3,340,384	-		26,440,306				
Balance at 31 December 2021	52,458,183	62,032,277	83,306,401	52,505,798	21,350,182	26,589,162	10,193,250	26,440,306	246,402,976				
Charge for the year	-	6,203,277	10,098,370	6,017,973	809,319	3,346,485	-		26,475,424				
Balance at 31 December 2022	-	58,661,460	93,404,771	58,523,771	22,159,501	29,935,647	10,193,250	-	272,878,400				
Carrying amounts													
At 31 December 2021	380,788,639	196,339,578	17,601,090	7,673,931	1,868,884	6,842,461	-	45,451,390	656,565,973				
At 31 December 2022	380,788,639	189,469,639	7,625,220	1,655,958	1,620,555	3,559,126	-	45,451,390	630,170,527				
9.2 Building development costs													
	Cost or deemed cost	2022	2021										
	LKR	LKR	LKR										
Balance at 1 January	386,954,261	387,252,013											
Additional													
*Adjusted		(297,752)											
Balance at 31 December	386,954,261	386,954,261											
Amortisation													
Balance at 1 January	213,924,317	188,354,210											
Charge for the year	25,590,185	25,590,164											
*Adjusted		(20,056)											
Balance at 31 December	239,514,502	213,924,317											
Carrying amounts as at 31st	147,439,764	173,029,950											

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

9.2 Building development costs (contd.)

Amortisation Site	Year	Cost incurred	Rate % @ 2 decimal	Cumulative amortisation balance at 01 January 2022	Amortised during 2022	Cumulative amortisation balance at 31 Dec 2022	Carrying amounts of building development cost at 31 Dec 2022
Museum	2013	172,847,765					
Museum	2014	1,881,295					
Museum	2015	389,177					
Total		175,118,237	5.77%	84,051,411	10,101,215	94,152,627	80,965,610
Battaramulla	2013	117,704,905					
Battaramulla	2014	7,119,772					
Battaramulla	2015	9,744,208					
Total		134,568,885	5.77%	63,360,759	7,762,237	71,122,995	63,445,891
Pinnawala	2013	10,086,000	10.00%	9,077,400	1,008,600	10,086,000	-
Wagolla	2014	810,487	10.00%	648,389	81,050	729,438	81,049
Peradeniya	2013	31,657,965					
Peradeniya	2014	8,968,352					
Peradeniya	2015	677,222					
Total		41,303,539	10.00%	36,140,906	4,130,355	40,271,260	1,032,279
Welipanna	2013	10,269,019	10.00%	9,242,119	1,026,900	10,269,019	-
Race course	2013	1,113,613	10.00%	1,002,248	111,365	1,113,613	-
Katunayake	2013	1,060,004	10.00%	954,000	106,004	1,060,004	-
Unawatuna	2013	1,000,004	10.00%	900,000	100,004	1,000,004	-
K-Zone	2013	8,353,071	10.00%	7,517,759	835,312	8,353,071	-
Thunmulla		769,766	10.00%	538,852	76,978	615,829	153,937
kandy	2019	1,993,423					
Adjusted	2020	508,213					
		2,501,636	10.00%	490,474	250,165	740,639	1,760,997
Grand total		386,954,261		213,924,317	25,590,185	239,514,498	147,439,762

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

		2022	2021
	Notes	LKR	LKR
10. Inventories			
Showroom trading first quality finished goods		328,862,842	394,180,031
Second quality finished goods		154,646,764	150,731,992
Raw materials and work in progress	10.1	392,295	353,927
		483,901,901	545,265,950

10.1 Raw materials and work in progress

Raw materials and work in progress consist of items manufactured for custom made direct

		2022	2021
	Notes	LKR	LKR
11. Trade and other receivables			
Trade receivables	11.1	14,930,358	27,661,720
Other receivables	11.2	12,069,562	16,000,356
Deposits and prepayments	11.3	62,980,524	63,275,967
		89,980,444	106,938,043
11.1 Trade receivables			
Trade Debtors		23,562,897	36,827,011
Doubtful Debtors	11.4	(9,578,372)	(9,578,372)
Receivable Credit Card		945,833	413,081
		14,930,358	27,661,720
11.2 Other receivables			
Staff loans		265,000	332,500
Rent receivable		11,804,919	12,562,954
ESC receivable		-	3,110,010
Miscellaneous Receivable		(357)	(5,108)
		12,069,562	16,000,356
11.3 Deposits and prepayments			
Security deposits		126,022	126,022
Prepayments		4,229,119	4,859,893
Advances paid		35,181,010	35,131,399
Retention money		12,502,564	12,502,564
Refundable deposit		10,828,714	10,836,768
Guarantee receivables		113,095	(180,679)
		62,980,524	63,275,967
11.4 Doubtful Debtors			

In the year 2018 provision had been passed for Rs.9,578,372 /=in relation to the old balances

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	2022	2021
	LKR	LKR
12. Cash and cash equivalents		
Cash at bank	52,051,111	37,016,937
Cash in hand	1,426,383	773,210
	53,477,494	37,790,147
Other components in revenue reserve		
Opening balance	(124,540,999)	(124,916,200)
Previous year revision	1,141,993	375,201
	(123,399,006)	(124,540,999)

Other components in revenue reserve includes amendments related to prior periods which were retrospectively incorporated through the cumulative revenue reserves.

	2022	2021
	LKR	LKR
13. Retirement benefit obligations		
Opening balance	56,925,460	56,203,979
Gratuity provision for the year	2,827,910	3,682,500
Gratuity paid during the year	(2,073,840)	(1,567,120)
Gratuity balance Adj		(1,393,899)
Closing balance	57,679,530	56,925,460

The liability for retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 108 employees of the organization.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

14. Deferred income	Year	Amortisation rate	Original grant received	Unamortised balance as at 31 December 2021	Amortised amount during 2022	Unamortised balance as at 31 December 2022
Description of the grant						
Economic Development	2012	10%	100,000,000			
Ministry of Trade and Commerce	2013	10%	36,000,000	3,600,000	3,600,000	-
Budget allocation	2013	10%	10,224,643	1,022,464	1,022,464	-
Budget allocation	2013	10%	42,109,637	8,421,926	4,210,964	4,210,962
Budget allocation	2013	10%	11,099,920	1,109,992	1,109,992	-
Budget allocation	2013	10%	7,828,426	782,845	782,845	-
Economic Development	2014	10%	35,000,000	7,000,000	3,500,000	3,500,000
Budget allocation	2014	10%	11,137,374	2,227,486	1,113,737	1,113,749
Total			253,400,000	24,164,713	15,340,002	8,824,711

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

	2022 LKR	2021 LKR
15. Long term borrowings		
Opening balance	477,586,230	439,723,409
Loan obtained during the year	177,076,555	78,964,206
Loan paid during the year	(151,046,121)	(41,101,385)
Closing balance	503,616,664	477,586,230
(Less) Payable within one year	(129,310,287)	(93,804,348)
Long term loan obligations	374,306,377	383,781,882

15.1 Bank of Ceylon – Loan Balance Rs.332.6 Mn as at end 2022

Initially loans were taken within the periods of 2012 to 2018 for approximately Rs.950 Mn for working capital requirements by mortgaging the Fort building. While having upgraded the showrooms with the loans taken, Laksala found a substantial growth in revenue to service the loans. Eventually having settled the capital loan amounts & reducing the Bank of Ceylon loans from year 2013 to 2019 to Rs.273Mn. But due to the economic situation in the country Laksala was not able to settle the capital and the interest from year 2020 to 2022. Therefore as provided by the Central bank of SL many moratoriums' were taken in 2020 and 2022 making the total outstanding BOC loans to Rs.332.6Mn.

15.2 During the financial year 2022 six additional moratoriums were provided for the existing 3 loans.

2021 BOC loan balance	Rs.306 Mn
2022 BOC interest & capital	Rs. <u>26.6 Mn</u>
Total BOC loan balance	Rs.332.6 Mn

15.3 Regional Development Bank – Rs.200 Mn

Rs.200 Mn facility was obtained from the Rural Development Bank Kelaniya branch in the year 2013 to meet urgent working capital requirements. No security was offered by Laksala as the General Treasury has arranged the loan facility through the bank. In the year 2021 due to the financial situation arising as a result of COVID-19 the interest was capitalized for Rs.12.9Mn which Laksala could not pay.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	2022	2021
	LKR	LKR
16. Trade and other payables		
Trade payables	255,675,927	290,919,988
Other payables	112,832,631	119,436,360
Accrued expenses	88,142,226	71,917,604
	456,650,784	482,273,952
17. Short term borrowings		
Current portion of the long term loan obligations	129,310,287	93,804,348
Short term loan	4,872,936	7,415,524
	134,183,223	101,219,872
18. Bank overdrafts		
Bank overdrafts	986,112	986,112

The bank overdraft amounting to Rs.986,112.00 (2021: Rs.986,112.00) is the balance appearing in the cash book as of the year end. With the restructuring of the BOC loans in the financial year an approval was provided by the bank for an overdraft facility of Rs.15 Mn.

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

19. Contingent Liabilities and Commitments

Pending litigations against the board:

Court No.	Case filed on:	Case filed by	Nature of the case	Current status
DMR/0280/13	13-Jul-15	Kotte Municipal Council	Litigation filed in the District Court by the Kotte Municipal Council against Laksala for breaching of contract for fixing of solar panels.	Decision was given to pay Rs.4,020,000 along with interest to Kotte Municipal Council. However, Laksala has filed an appeal on this case. As the court decision was given, a similar amount was provided as a payable as of 31 December 2022
DMR/2255/16	9-May-16	Dimo Pvt Ltd	Litigation filed on District court by Dimo against Laksala for breaching of contract due to non payment of balance dues.	Decision still pending and no probable commitment prevails as at 31st December 2022
138/2018/MR	8-Mar-18	JAT Holdings Pvt Ltd	Litigation filed in Colombo commercial High Court with regard to a contract taken by Laksala from Tourist Board and sub contracted to JAT Holdings & a payment pending of Rs.8,184,683.49	Attorney general Department has submitted objections on behalf of Laksala (SLHB).
139/2018/MR	10-Apr-18	JAT Holdings Pvt Ltd	Laksala has signed an agreement with the Ministry of Justice to renovate the Arbitration centre in the 22nd floor of the World Trade Centre. Laksala had sub contracted this to JAT Holding and the job has been completed. But Ministry of justice had not settled the balance amounts to pay to JAT Holdings. Therefore JAT Holdings have filed a case in the Colombo High Court against Laksala for not settling a sum of Rs.32,256,980	Attorney general Department has submitted objections on behalf of Laksala (SLHB).

Internal inquiries

Internal inquiries were held against two senior officers of Sri Lanka Handicrafts Board who have been interdicted in the year 2015. And the decision of the Board of Directors is pending

Chairman

Sri Lanka Handicrafts Board

Report of the Auditor General on Financial Statements and Other Legal and Regulatory Requirements of the Sri Lanka Handicrafts Board for the Year Ended 31 December 2022 as per Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2022, comprising the statement of financial position as at 31 December 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 the provisions of the National Audit Act, No.19 of 2018 and the Finance Act No.38 of 1971. My report will be tabled in Parliament in due course as per Article 154(6) of the Constitution.

In my opinion, except for the effects of the matters described in the section of Basis for the Qualified Opinion of my report, the financial statements of the Board give a true and fair view of the financial position of the Institute as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

- a) According to Section 69 of Sri Lanka Accounting Standard No. 1, current liabilities should be recognized only for liabilities expected to be settled within the normal operating cycle within 12 months after the reporting period. However, out of the total trade creditors' balance of Rs.255,675,927, Rs. 150,440,727 is non-active unsettled creditors' balance that exceeds 05 years. Similarly, since there was a debit balance amounting to Rs. 3,821,690 in

the name of Sri Lanka Handicrafts Board within the creditors' balance, the creditors' balance was understated by that value.

- b) In terms of the Section 28 of Sri Lanka Accounting Standard No. 02, since the real value of stock deficiencies, repairable stocks and inactive stocks were not represented in the second quality stock amounting to Rs. 154,646,764 existing in the stock balance of the Board, they were not recorded in accounts having indicated to the net realized value.
- c) According to Section 34 of Sri Lanka Accounting Standard No. 02, all losses related to stock should be recognized as an expense in the period in which the loss occurred; however, the deficient stocks with a total value of Rs. 3,425,875 included in the first quality stock as at December 31,2022 had not been recorded in accounts likewise.
- d) According to the Sri Lanka Accounting Standard No. 16, Action had not been taken to revalue the lands belonging to the Board with a total value of Rs.380,788,639, computer accessories amounting to Rs. 19,279,453, and software with a value of Rs. 10,193,250 and to record the market value in accounts.
- e) As the renovation works of the Fort Laksala building were suspended, the amount of Rs. 45,451,390 incurred in that regard has been stated in financial statements as work on progress since the year 2014 to the year under review.
- f) Action had not been taken to obtain the legal title of the properties located in Nuwara- Eliya and Thumulla vested by the Department of Small Industries in the year 1993, of which the Board carries out its business affairs, and to include those in financial statements.
- g) Although the balance of property, plant and 04 types of equipment was Rs.228,677,799 as at December 31,2022, since the balance was Rs. 80,955,189 as per the survey reports, a difference of Rs. 147,722,610 was observed.
- h) Even though a bank overdraft amounting to Rs. 986,112, which was coming since the year 2015 but actually did not existed, has been included under current liabilities of the financial statements, action had not been taken to settle it even in the year under review.

- i) Even though royalty fee amounting to Rs.9,090,000 agreed upon when entering into agreements for foreign sales in the year 2022 had been recorded in accounts as other income, no foreign sales had been taken place in the year under review.
- j) Even though there was a balance of Rs.11,014,318 in the transit stock account as at the final day of the year under review, substantial information to compare in this regard had not been submitted for auditing.
- k) According to the physical stock survey reports, a stock deficiency of Rs.2,915,960 worth of sales belonging to the Thummulla showroom and a stock deficiency worth Rs.876,452 to the weighted average cost of the Battaramulla showroom were not disclosed in the financial statements or recorded in accounts.
- l) According to the physical stock verification reports of the Thummulla showroom, even though no loss was reported for the year under review, a stock loss of Rs. 1,712,412 was recorded in accounts as at 31 December 2022 as per the financial statements.
- m) Schedules or balance confirmations for creditor balances of Rs.37,952,164 included in other payables were not submitted for audit.
- n) Action had not been taken during the year under review as well to obtain the balance confirmation letters from the debtors to confirm trade debtor balance is Rs. 23,562,897.
- o) Although it had been stated a total of Rs. 6,546,541 as accrued expenses in accrued expenditure, the parties who should pay for those were not specifically identified.

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 this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Other information included in the Annual Report 2022 of the Board

The information that are expected to provide me after the date of this audit report and included in the Annual Report 2021 of the Board but not included in the financial statements and in my audit report in that regard are intended as other information. The management shall responsible for this other information.

Other information is not disclosed by my opinion on financial statements, and I do not state any assurance or opinion in that regard.

My responsibility relevant to my auditing of financial statement is to read when it is able to receive the above identified other information and when doing so, to consider that whether the other information quantitatively mismatches with financial statements or as per my knowledge obtained by some other means.

When go through the Annual Report 2022 of the Board, if I decide that there are quantitative errors, those facts shall be communicated to the governance parties for rectifying those. If there are further un-corrected erroneous citations, those will be included in the report that I would table in Parliament in due course as per Article 154(6) of the Constitution.

1.4 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 Public Sector Accounting Standards, and for such internal control as management determines 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Institute 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 Institute.

1.5 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 audit 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 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 Institute'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 Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Institute 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.

I make aware the governing parties on important audit findings identified during my audit, main internal governance lapses and other matters.

2. Report on the Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 Apart of the effect caused by the matters described in the section of Basis for Qualified Opinion of my report, as per the requirement of the section 12 (a) of the National Audit Act, No. 19 of 2018, I have not received all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Board.

2.1.2 The financial statements presented by the Board are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented include the recommendations made by me in the previous year, as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, excluding the observations mentioned in the (a), (b),(c), (e), (g), (j), (n), (o) of the section of Basis for Qualified Opinion of my report.

2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the Governing Board of the Board has any direct or indirect interest in any contract entered into by the institute which is out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the institute has not complied with any applicable written law, general and special directions issued by the Governing Board of the Board as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 other than below-mentioned observations.

Reference to Rule
Law/ Regulation

Description

a) Financial
Regulations of the
Democratic Socialist
Republic of Sri Lanka

(i) Financial Regulation 371 (5) After issuing an interim imprest, although that imprest should be settled again within 10 days after the relevant work is completed, the institution had settled the advances of Rs. 2,274,351 given in 58 cases in the year 2022 with a delay of 20 days to 285 days.

(ii) Financial Regulation 371 (2) (b) Although only the staff officers can give an ad hoc interim imprest up to a maximum of Rs.100,000 in one case for a particular task, on the contrary, ad hoc interim imprest amounting to Rs.2,360,379 was issued on 10 occasions exceeding Rs.100,000.

b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Chapter XLVIII of Volume II of the Establishments Code – 21 and 23 Sections Although two officers were suspended As per the decision of the Board of Directors meeting held on November 19, 2015, even by the audit date of May 20, 2023, the disciplinary authority of the Board had not given disciplinary orders.

c) Paragraph 6.6 of the Operational Manual for Public Enterprises introduced by Public

Enterprises Circular (i) Although the draft annual report and financial statements No. 01/2021 dated should be submitted to the Auditor General within 60 days 16.11.2021 after the end of the accounting year, the financial statements of the year 2022 were submitted 5 months late on July 18, 2023.

ii) Although the annual report along with the audit report should be tabled in the Parliament within 05 months after the end of the financial year, the annual reports for the years 2020 and 2021 have not been tabled even by August 20, 2023.

2.2.3. Whether the Board has performed not in conformity with its powers, functions and duties as required by Section 12 (g) of the National Audit Act No. 19 of 2018.

2.2.4 Whether the resources of the Board had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement mentioned in Section 12 (h) of the National Audit Act No. 19 of 2018.

2.3 Other Matters

- a) The Board had not taken any legal action to recover the amount of Rs. 1,182,386 owed on behalf of 8 buyers for the sales on credit made by the Katubedda project, which was terminated in the year 2018.
- b) Although the balance of trade debtors was Rs. 23,562,897 as at December 31, 2022, since there was a total of Rs. 10,560,711 of debtor balances of more than Rs. 50,000 due from various government institutions, goods were sold again to the same debtors without following a formal system to recover the balances.
- c) The security deposits collected from the officers had not been deposited in a savings account in the name of the concerned officers and a sum of Rs. 2,010,000 was deposited in the current account, and it had been stated that an interest of Rs. 1,261,533 at the rate of 6 percent per annum was to be paid to the said officials.

- d) The land with an extent of 01 acres 30.6 perches and buildings belonging to Galle Unawatuna Salusala Institute have been handed over to the Board by the Cabinet Decision No. 12/1523/553/020 dated October 11, 2012. Accordingly, the Board had paid Rs. 15,248,575 on December 12, 2012 as the purchase basis, but failed to obtain the legal ownership and right of use of the property in the year under review. Furthermore, action had not been taken to obtain the legal ownership of the properties in Nuwara Eliya, Thummulla and Katubadda.
- e) Due to the non-conveyance of agreement of the two parties to the terms of the contract related to the renovated museum building from 2013 to 2015 at the cost of Rs.175,118,237 on the approval of the Cabinet, on January 01, 2023, the sale showroom was sealed by the Department of National Museums. However, although 06 months had passed since it was sealed by the audit date of 10th June 2023, the Board had failed to obtain again the showroom and the stock worth Rs.99,777,436 was lying idle in the showroom.
- f) Although a non-refundable deposit of Rs.5,888,000 was paid to the Urban Development Authority for a 10-year contract for the Racecourse showroom on November 30, 2012, this sales showroom was closed on December 26, 2018. Hence it was observed at the audit that this was an uneconomic transaction.
- g) As only 1200 sq. ft. space is used in the Fort sales showroom building, it was also observed that the 40830 sq. ft. building premises has been idle for a long time.
- h) Although the land and the two-storied building on which the Galle Sales Showroom is located were transferred to the Board by the Gazette No.670 dated July 5, 1991, action had not been taken to obtain the legal ownership till the date of audit.
- i) Rs. 9,589,919 was outstanding as at 31st December 2022 as Rs. 456,770 from Barista Restaurant in Thummulla, Rs. 4,243,949 from Barista Coffee Lanka Ltd, Rs. 20,000 from Tarumila Floral Society and Rs. 4,869,200 from 8 Super Band business locations

that had to be recovered during the period from 2018 to 2020, and no action was taken to recover the said outstanding amount.

- j) Action had not been taken even in the year under review to settle the balances of Rs. 3,838,357 included in the project retention money and refundable deposit balance of Rs. 12,502,564 which exist from many years and the advance balance of Rs. 16,026,936 given for purchase of tradable and non-tradable goods and administrative affairs.
- k) During the period from 2011 to 2017, the Board mortgaged the Fort Laksala building and obtained a loan of Rs. 849,481,500 from the Bank of Ceylon on 12 occasions. Due to non-payment of loan installments and interest, the accrued interest from time to time was also capitalized and the bank had re-registered as 14 new loans, and as at December 31 of the year under review, the total value of 8 such loans amounting to Rs.332,607,065 had to be further settled.
- l) A loan amount of Rs.200 million was given to the Board in the year 2013 through the re-financing loan facility provided to the Regional Development Bank under the Saubagya Loan Scheme implemented by the Central Bank of Sri Lanka. The accumulated balance of Rs.12,909,761 due to non-payment of loan interest was also capitalized as a new loan amount. Accordingly, the loan balance to be paid as at December 31, 2022 was Rs.171,009,585 and the accrued interest for the years 2021 and 2022 was Rs.33,721,736. Due to continuous non-payment of loans and interest, the bank had proposed a new loan payment plan through letter No. RDB/HO/RE/122/4 dated October 14, 2022, however the Board had not agreed to it.
- m) According to stock verification reports, although the gems and jewelry with a sales value of Rs. 340,069,730 included in the stock has been discolored for a long time, action had not been taken to sell those by giving special discounts or by appropriate marketing strategies.

W.P.C.Wickramaratne
Auditor General