



Annual Report 2023

Sri Lanka Handicrafts Board - Laksala

TABLE OF CONTENTS

	PAGE NO
Corporate Information	01
Laksala Showrooms Network	02
Vision and Mission	03
Function Review and Operational Review	04-10
Board of Directors & Senior Management Team	11

FINANCIAL STATEMENTS

Year at a Glance	13
Statement of Comprehensive Income	14
Statement of Financial Position	15
Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes to the Financial Statements	18-37
Auditor General's Report	38-47

CORPORATE INFORMATION

NAME OF THE BOARD

SRI LANKA HANDICRAFTS BOARD
STATE MINISTRY OF BATIK HANDLOOM & LOCAL APPARAL PRODUCTION

LEGAL FORM

STATUTORY BOARD INCORPORATED BY "NATIONAL CRAFTS COUNCIL & ALLIED INSTITUTIONS ACT NO.35 OF 1982"

HEAD OFFICE

NO : 215, BAUDHALOKA MAWATHA, COLOMBO 07

PHONE : 011 2055717 / 011 2055501

FAX : 011 2594872 / 011 2680928

E-MAIL : *info@laksala.gov.lk*

WEBSITE : www.laksala.gov.lk

SALES INQUIRIES

PHONE : 011 2680925

E-MAIL : *info@laksala.gov.lk*

AUDITORS

NATIONAL AUDIT OFFICE

BANKERS

BANK OF CEYLON

PEOPLE'S BANK

REGIONAL DEVELOPMENT BANK

SRI LANKA HANDICRAFTS BOARD
SHOWROOMS NETWORK

LAKSALA OUTLETS	ADDRESS	TELEPHONE
FORT	NO : 60, YORK STREET, COLOMBO 01	011-2323514
THUMMULLA	NO : 215, BAUDDHALOKA MAWATHA, THUMMULLA, COLOMBO 07	011-2580579
KANDY	NO : 05, SANGARAJA MAWATHA, KANDY	081-2222087
KATUBEDDA	NO : 282, GALLE ROAD, KATUBEDDA, MORATUWA	011-2605600
BATTARAMULLA	JANAKALA KENDRAYA, PALAWATTA, BATTARAMULLA	011-2786026
NUWARA ELIYA	UDUPUSSALLAWA ROAD,NUWARA ELIYA	052-2234445
GALLE	NO : 74/1, GALLE ROAD, GALLE	091-2222783
PINNAWALA	ELEPHANT ORPHANAGE, (AT THE EXIT) , PINNAWALA	035-2256015
PERADENIYA	NO : 14, BOTANICAL GARDEN, PERADENIYA	081-2389253
KATUNAYAKE	54D DEPARTURE TRANSIT AREA, BANDARANAYAKE INTERNATIONAL AIRPORT	011-2260167

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

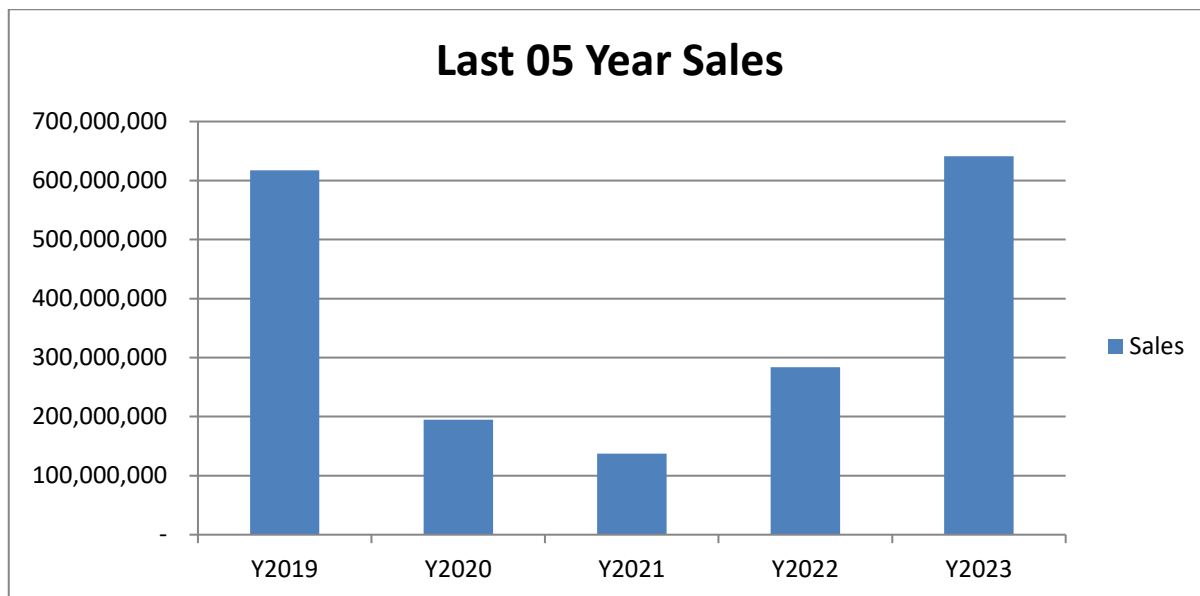
- Promote the local creations by doubling the number of products purchased from local suppliers by 2030.
- To strengthen the women entrepreneurship to Increase the total number of female suppliers by 50% and match the gender equality by 2030
- Increase the number of suppliers who are identified as “peoples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



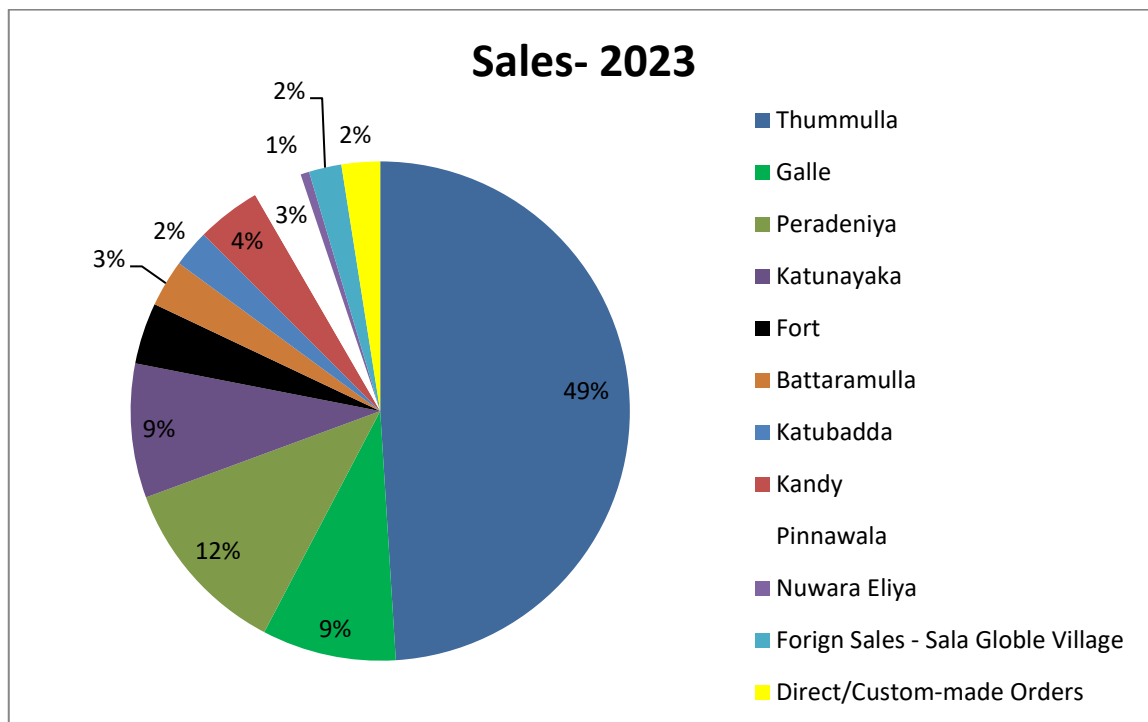
Laksala was established in 1964 with the objective of opening up international as well as domestic market opportunities and it was established under the National Crafts Council and Affiliated Institutions Act No. 35 of 1982 as Sri Lanka Handicrafts Board. At present Laksala has become the oldest and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

Summary of Financial Performance

Within the year under review of 2023, Laksala has reported a total turnover of Rs.641,276,597.00, and its total sales turnover is Rs.245,826,257.00. The graph below denotes the total sales summary of the Laksala within the last 05 years.

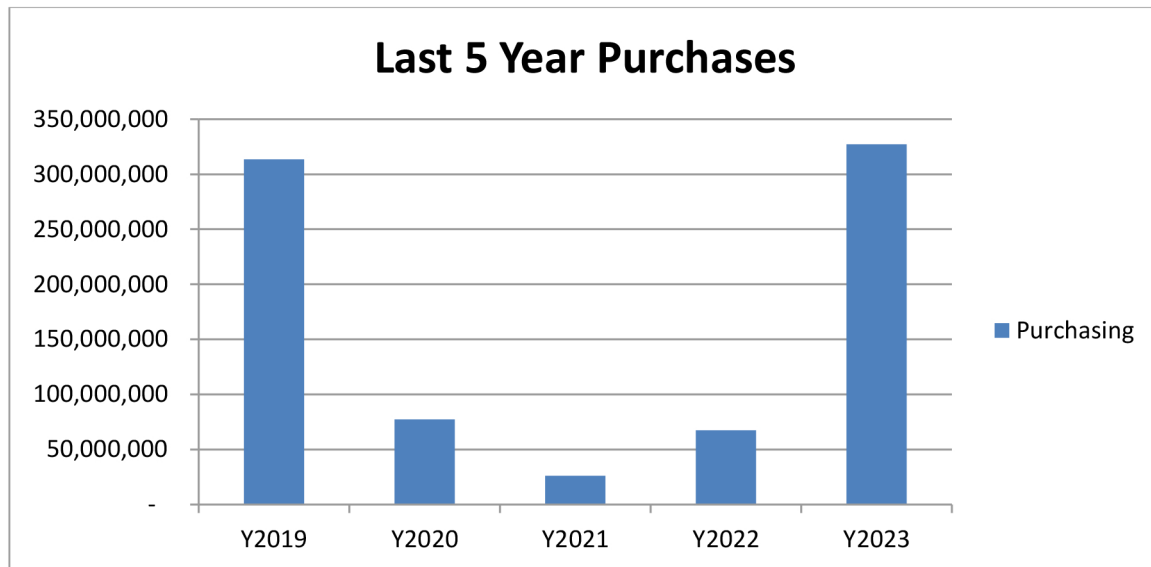


When analyzing sales in the year 2023, Thummulla Laksala Showroom has given the main contribution having made sales amounting to Rs.314,244,629.00 and the Peradeniya and Galle Laksala showrooms have made higher contributions having recorded sales turnover amounting to Rs.74,964,140.00 and Rs.55,717,125.00 respectively in the year 2023.

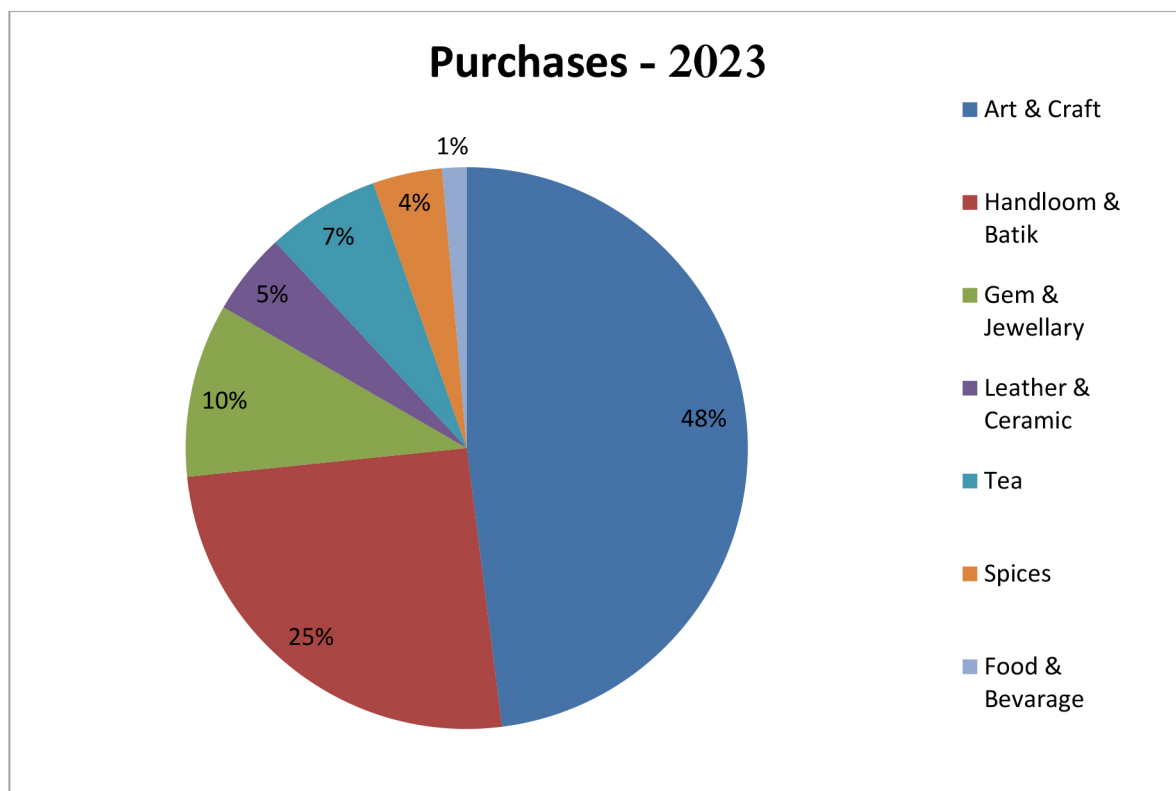


Analysis of Purchasing

In the year 2023, 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.



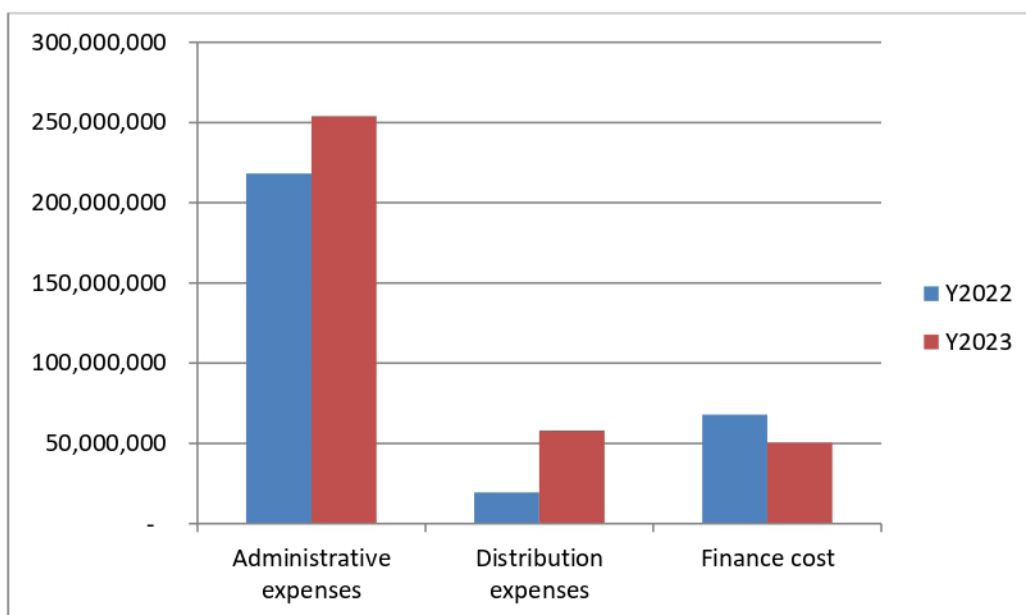
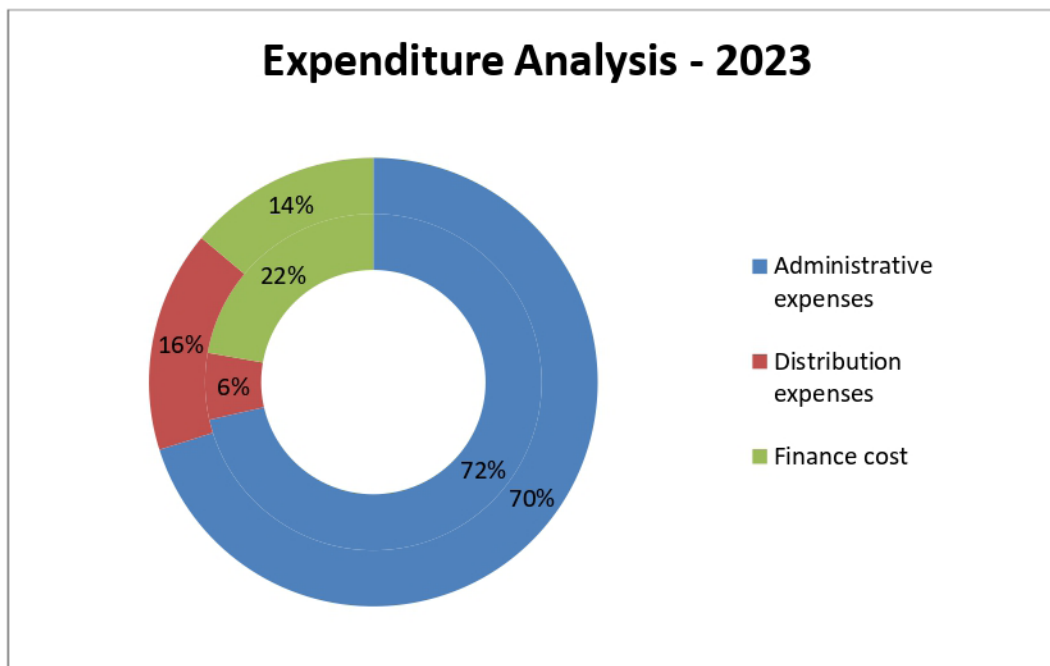
As per the item classification of the following graph, the purchasing relevant to the year 2022 is further indicated. A higher percentage of trade purchasing represents arts and crafts.



Expenditure Analysis

Expenses	Y2022	Y2023
Administrative expenses	218,216,410	253,942,587
Distribution expenses	19,533,586	57,892,687
Finance cost	67,879,043	50,298,576
	305,629,039	362,133,850

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



PERFORMANCE REVIEW – YEAR 2023

Background

I am pleased to present the Performance Review of the Sri Lanka Handicrafts Board - Laksala for the year 2023. Laksala was established in 1964 to create domestic and international market opportunities for local craftsmen. It was later established as the Sri Lanka Handicrafts Board under the National Crafts Council Affiliated Institution Act No. 35 of 1982. Currently, it has become the oldest and largest state-owned business chain of its kind in the country.

Strategic Approach

Through the commenced restructuring programs, Laksala was able to increase its turnover and profitability as well as customer attraction, which is needed for a sustainable existence, and the measures taken to address the requirement and demand were further strengthened: namely,

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

The range of products sold in Laksala showrooms under the Laksala trade name will be further expanded, and facilities for both local and foreign customers to purchase quality and high-standard gifts and souvenirs will be enhanced. Consequently, necessary steps have been taken to attract customers to the institute by expanding the marketing activities required to maintain its recognition as the sole state-owned commercial entity in the gift and souvenir market for both local and 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, efforts have been made to modernize Laksala showrooms and elevate them to a high standard to attract both domestic and foreign customers. This was achieved by introducing products under the Laksala brand and maintaining a high-quality product display, ultimately achieving the desired sales targets through branding.

Creating Good Attitudes in the Staff Required for a Friendly Customer Service

It has been made to maintain a staff capable of meeting the new market requirements and delivering customer-friendly service, and actions were taken to provide them with the necessary training and motivation to enhance their efficiency. Salaries and allowances were determined based on their skills, efficiency, and productivity. This condition has significantly benefited the institution in furthering its objectives.

Expansion of the manufacturing items

Under the new strategic plan, necessary steps were taken together with the National Design Centre, the National Craft Council and other relevant government institutions to expand not only the company's functions but also its product range. While preserving the identity of the local products, new designs were created and introduced to the market with high quality to meet the needs of the current market. These efforts cover a wide range of gifts and souvenirs, including gems and jewellery, tea, spices, leather products, ceramics, local masks, and other souvenirs, and steps have been taken to introduce innovative creations within the gifts and souvenir section through the Laksala Innovative Designs Division, thereby launching innovative handicrafts.

Supply Network

The Laksala supply network encompasses the procurement of gifts and souvenirs for sale, their manufacturing, planning, quality control, and the supply of new designs. The number of active suppliers, totalling 381 local craftsmen by the end of 2022, has been further increased this year. Additionally, opportunities have been extended to new manufacturers to enter this field by enhancing new market opportunities.

Administration

Sri Lanka Handicrafts Board - Laksala operated in compliance with relevant Acts, Government Circulars, and other Financial and Administrative directives concerning its overall operations. This ensured the adherence to principles of good governance and procurement guidelines. The Administration Division played a crucial role in managing human resources to achieve the organization's goals and objectives, as well as to provide other supporting services. During the year under review, the staff consisted of 88 employees. Further details are provided below.

Overall Cadre as at 31/12/2023

Senior Level	05	
Secondary Level	07	
Tertiary Level	47	
Primary Level	08	<u>67</u>
Contract Staff		<u>21</u>
Total		<u>88</u>

Compared with the previous year, staff has decreased from 107 to 88. In the effort to implement a well-designed short, medium and long-term business plan in the competitive business environment, the building up of a well-trained, committed and efficient workforce has become crucial.

Arrangements have been made to improve the quality and productivity of the sales and sales assistant employees through implementing training and development programs.

However, it is expected that the 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 Directors Member	Term of Appointment	
		To	From
1.	* Mr. Rushan Marambage	20.01.2023	වත්මන්
2.	Mrs. R.K.L. Jagoda	02.03.2022	වත්මන්
3.	Mr. D. Jeewanadan	09.10.2020	වත්මන්
4.	Mr. W.G.K.B. Ranatunga	02.05.2023	වත්මන්
5.	Mr. E.D.C.S. Arehapola	02.05.2023	වත්මන්
6.	Mr. A.L.D. Nadeeka Kanchana	02.05.2023	වත්මන්
7.	Mr. G.K.N.R.U. Kumara	02.05.2023	වත්මන්
8.	Mrs. N.P.A.R. Jayawardena	14.01.2020	02.05.2023
9.	Mr. Sajith M.Kodikara	03.01.2020	02.05.2023
10.	Mr. K. L. Mahinda Samaratunga	03.01.2020	09.01.2023
11.	Mrs. Madhumali Alwis (Attorney at Law)	03.01.2020	02.05.2023
12.	Mr. Sanjeeva Dharmawardena	08.06.2021	02.05.2023

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

SRI LANKA HANDICRAFTS BOARD –LAKSALA

Senior Management Team

Mr. C.N. Dahanayake	Acting 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. Devika Kumari Athukorala	Deputy Director (Distribution)
Mr. Gayan Liyanage	Acting Assistant Director (Human Resource and Administration)

OUR GRATITUDE

Firstly, on behalf of Laksala, I would like to express my sincere gratitude to His Excellency the President of the Democratic Socialist Republic of Sri Lanka, the Honourable Prime Minister, the Honourable Minister of Industries, and the Honourable State Minister of Small and Medium Enterprise Development. I would also like to express my heartfelt gratitude to the members of the Board of Directors, who have consistently made the necessary decisions and provided valuable recommendations to elevate our institution to the forefront of the industry.

Furthermore, I extend my sincere gratitude to the Secretary of our Ministry for the continuous support extended towards the progress of our institution.

I also wish to convey my gratitude to the Heads of Departments, who have provided effective leadership to their teams in handling the administrative, financial, and marketing functions of the institution, as well as to all other staff members whose dedication contributed to the efficient and productive operation of the institution.

I would like to express my special appreciation to the manufacturers who partnered with us by accurately identifying customer needs, introducing new products, and supplying handicrafts and souvenirs, including both traditional and innovative items. Likewise, our heartfelt gratitude is extended to our local and foreign customers who have continuously placed their trust in our institution.

In conclusion, I wish to state that our organization will take all necessary measures to strengthen the rural economy of Sri Lanka and uplift the living standards of the rural community in the future. We also aspire to increase our sales to one billion rupees in the coming years.

Furthermore, plans have been formulated to significantly reduce the company's overhead costs and maintain a growing profit margin in 2024, which will be achieved in line with a strategic plan aimed at ensuring the efficient and effective contribution of the entire staff through the systematic management of the company's human and physical resources.

Chairman,

Sri Lanka Handicrafts Board – Laksala



LAKSALA

State Gift & Souvenir Boutique

SRI LANKA HANDICRAFTSBOARD

**FINANCIAL STATEMENTS
31 DECEMBER 2023**

2023

SRI LANKA HANDICRAFTS BOARD

NOTE TO THE FINANCIAL STATEMENTS

Revenue analysis for the year 2023

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

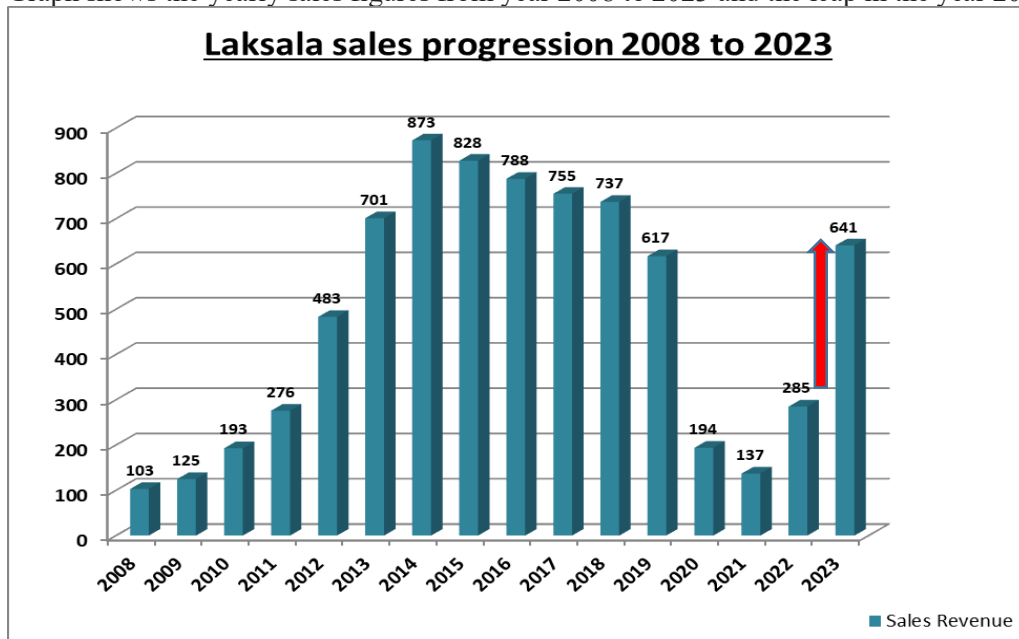
The year 2023 was a successful recovery after the outbreak of the COVID-19 pandemic situation & Sri Lanka witnessed a heavy inflow of tourist arrivals which boosted the revenue of Laksala especially in the 3rd and fourth quarters.

With the growth of the tourist arrivals to Sri Lanka in the 2023 accounting year Laksala started regaining the sales patterns which Laksala was experiencing few years back when the revenue was at its peak. The sales growth was clearly visible when analyzing the quarterly sales which showed a rising trend starting from the 1st quarter onwards where every quarter had a growth over the previous quarter. Depicted below are the positive quarterly growths during the year.

Laksala quarterly Revenue – 2023

1 st quarter – Rs.119.9 mn	} Growth
2 nd quarter – Rs.127.5 mn	
3 rd quarter – Rs.186.5 mn	
4 th quarter – Rs.207.5 mn	
	6%
	46%
	11%

Graph shows the yearly sales figures from year 2008 to 2023 and the leap in the year 2023.



One of the main reasons in achieving sales revenue of Rs.641mn was the inflow of trading goods purchased for a value of Rs.307mn throughout the year 2023.

Laksala sales revenue of Rs.641mn in 2023 was a significant increase by 224% compared with the year 2022. The administrative expenses were Rs.254mn which is an increase of Rs.36mn (14%) this is justified with the revenue increase. The Selling and distribution cost for 2023 was Rs.57.8mn compared to Rs.19.5mn in 2022 and is an increase of approximately 290%. The increase in expenditure in the year 2023 justifies the operational expenses which are increased based on the gradual increase in revenue in 2023. Sri Lanka Handicrafts Board (Laksala) ended the year with a Profit before tax of Rs.57mn. This is comparatively a big turnaround with year 2022 which was a loss of Rs.99mn.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

		2023	2022
	Notes	LKR	LKR
Revenue	3	641,276,597	283,623,048
Cost of sales		(245,826,257)	(113,608,044)
Gross profit		395,450,340	170,015,004
Interest on Saving Accounts	4	70,513	68,432
Other income	5	23,733,287	36,504,933
Administrative expenses	6	(253,942,587)	(218,216,410)
Selling & distribution expenses	7	(57,892,687)	(19,533,586)
Results from operating activities		107,418,866	(31,161,627)
Finance cost	8	(50,298,576)	(67,879,043)
Profit for the year		57,120,290	(99,040,670)

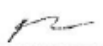
SRI LANKA HANDICRAFTS BOARD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	2023 LKR	2022 LKR
Assets			
Non-current assets			
Property, Plant & Equipment	09	687,635,857	777,610,291
Total non-current assets		687,635,857	777,610,291
Current assets			
Inventories	10	524,015,737	483,901,901
Trade and other receivables	11	83,130,903	89,980,444
Cash and cash equivalents	12	59,202,624	53,477,494
Total current assets		666,349,264	627,359,839
Total assets		1,353,985,121	1,404,970,130
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		(322,362,281)	(281,916,107)
Total equity		310,094,732	350,540,907
Non-current liabilities			
Retirement benefit obligations	13	59,301,223	57,679,530
Deferred income	14	-	8,824,711
Long term borrowings	15	419,491,154	374,306,377
Total non-current liabilities		478,792,377	440,810,618
Current liabilities			
Trade and other payables	16	535,004,994	456,650,784
Income tax payable		20,398,486	21,798,486
Short term borrowings	17	8,332,827	134,183,223
Bank overdrafts	18	1,361,705	986,112
Total current liabilities		565,098,012	613,618,605
Total liabilities		1,043,890,389	1,054,429,223
Total equity and liabilities		1,353,985,121	1,404,970,130


 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 ----- at the Board meeting held in Laksala Thummulu, 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 2023

	Stated capital	Capital reserves	Revaluation reserves	Capital grants	Retained earnings	Total equity
	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1 January 2022	69,628,878	510,806	454,366,157	107,951,172	(184,017,430)	448,439,583
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)	350,540,906
Adjustments to prior year errors					(97,566,464)	(97,566,464)
Profit for the year	-	-	-		57,120,290	57,120,290
Balance as at 31 December 2023	69,628,878	510,806	454,366,157	107,951,172	(322,362,281)	310,094,732

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 LKR	2022 LKR
Cash generated from operations			
Profit before tax		57,120,290	(99,040,670)
Adjustments for:			
WIP Adjustments		45,451,390	
Retirement benefit obligations		8,401,558	2,827,910
Interest expenses		50,001,511	67,703,833
Depreciation		26,766,077	26,475,424
Interest On saving Accounts		(70,513)	(68,432)
Amortization of capital expenditure costs		19,303,925	25,590,180
Prior Year Adjustment		(97,566,464)	1,141,993
Grants amortised		(8,824,711)	(15,340,000)
		100,583,063	9,290,238
Changes in working capital			
Inventories		(40,113,836)	61,364,049
Trade and other receivables		6,849,541	16,957,599
Trade and other payables With Tax		80,211,518	(25,623,168)
Cash generated from operations		147,530,286	61,988,718
VRS paid			
Gratuity paid		(6,779,865)	(2,073,840)
Interest paid		(53,258,817)	(67,703,833)
Net cash generated from operating activities		87,491,605	(7,788,955)
Cash flows from investing activities			
Interest On saving Accounts		70,513	68,432
Purchases of property, plant & equipment		(1,546,964)	(79,978)
Net cash used in investing activities		(1,476,451)	(11,546)
Cash flows from financing activities			
Long/short term loans obtained		22,617,250	26,030,434
Loan repayments		(103,282,868)	(2,542,587)
Net cash used in financing activities		(80,665,618)	23,487,847
Net increase/(decrease) in cash and cash equivalents		5,349,537	15,687,347
Cash and cash equivalents at the beginning of the year		52,491,382	36,804,035
Cash and cash equivalents at the end of the year		57,840,919	52,491,382
Bank overdrafts	18	(1,361,705)	(986,112)
Cash in hand and at bank	12	59,202,624	53,477,494
		57,840,919	52,491,382

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

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 2023. 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. with the increase in purchasing consignment stock for trading purpose the accounts need to be corrected as the liability of the consignment stocks need to be omitted from the accounts as the liability is transfer to the supplier and not laksala

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	2023	2022
	LKR	LKR
Showroom sales		
Thummulla	314,244,629	123,515,057
Museum	-	18,066,992
Galle	55,717,125	22,808,891
Peradeniya	74,964,140	17,655,278
Katunayaka	55,678,612	32,888,767
Fort	25,486,840	10,614,864
Welipenna - 1	-	7,922,129
Battaramulla	19,498,538	9,514,277
Kandy	26,639,196	10,732,566
Katubadda	15,487,215	7,929,004
Pinnawala	20,431,048	5,873,549
Nuwara Eliya	3,611,477	1,530,948
Total showroom sales	611,758,820	269,052,322
Foreign Sales-Sala Global Village	13,531,063	
Direct/custom made orders	15,986,714	14,570,726
	641,276,597	283,623,048
Nation building tax (NBT)	-	-
	641,276,597	283,623,048

4. Investments

Interest on saving account	70,513	68,432
----------------------------	--------	--------

5. Other income

	2023	2022
	LKR	LKR
Rental income	13,165,076	20,174,168
Grant Amortization Income	8,824,711	15,340,003
Sponser ship	1,750,000	-
Circuit bungalow reservation	-	-
Foreign exchange gain	(6,500)	990,762
	23,733,287	36,504,933

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

6. Administrative expenses	Note	2023 LKR	2022 LKR	
Salaries & Allowance *		67,949,878	71,541,865	
Incentive		4,456,555	-	
E.P.F. & E.T.F.		8,367,900	9,199,595	
Gratuity		8,401,558	2,827,910	
Transport Allowance		9,838,635	9,524,741	
Directors Fees & Board Meeting Expenses		641,904	454,625	
Audit Fees/Professional Fees		975,000	900,000	
Legal Fees		602,500	264,500	
Security Charges		10,815,284	9,157,393	
Rent & Rates *		22,021,792	19,679,069	
Electricity		11,353,395	7,624,906	
Deprerciation		26,766,077	26,475,424	
Building Development Amortization-Exp		19,303,925	25,590,180	
Cleaning Services		7,084,036	6,039,163	
Other Staff Cost *	6.1	13,935,267	7,210,644	
Other Operational Cost *	6.2	41,428,881	21,726,395	
			253,942,587	218,216,410
Subnote 6.1				
Included under other ataff cost *		2023 LKR	2022 LKR	
Overtime		4,401,033	1,879,207	
Staff Welfare		5,159,026	3,000,638	
Cash Security Interest		196,686	206,347	
Staff Training		1,505,070	53,200	
Medical Expenses		2,043,654	2,071,252	
VRS		-	-	
			13,935,267	7,210,644

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

Subnote 6.2	2023	2022
Included under other operation cost *	LKR	LKR
SSCL tax Expences	8,016,785	989,444
Advertisement	680,475	445,973
Printing & Stationery	3,797,019	2,083,958
News Papers & Periodicals	200	-
Postage/Tele/Telex	8,677,683	9,012,214
Fuel & Lubricants	1,540,225	1,936,575
Stock Verification	218,270	20,460
Trade Licence Fees	457,488	479,620
Computer Expenses	1,088,485	138,057
Insurance	163,828	138,980
Water Bill	1,446,809	413,000
Rep & Maint - Building	3,353,650	990,980
Rep & Maint - Machinery	1,328,348	1,617,899
Vehicle Rental Charges	4,301,850	768,392
Translation Fess	141,529	49,150
Membership Fees	4,880	-
Concession Fees	6,204,557	2,641,668
Stamp Fees	6,800	25
	41,428,881	21,726,395

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

7. Selling & distribution expenses	Nots	2023	2022
		LKR	LKR
Guide Commission		30,921,093	8,708,059
Credit card Commision		8,539,603	3,332,395
Packing Materials Locals		4,227,403	1,929,021
Business Promotion		3,386,068	1,279,581
Rep.& Main.Purchase Goods		419,880	143,763
Exhibition and Trade Fair		7,681,447	2,156,125
Travelling Expenses		2,641,402	1,897,211
Registration Fees		3,400	3,000
Valuation Expenses		16,620	10,000
Insurance & Freight Charges		52,027	74,431
		57,892,687	19,533,586

		2023	2022
		LKR	LKR
8. Finance costs			
Bank charges		297,065	175,210
Loan interest -Boc		50,001,511	48,800,009
-Rdb*		-	18,903,824
		50,298,576	67,879,043

** RDB Loan was restructured due to non payment and as discussed interest calculation for the year 2023 was subsidized, carrying forward the reduced interest amount to be paid from 2024 onwards.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

09. Property, plant and equipment

	Notes	2023 LKR	2022 LKR							
Freehold assets	9.1	559,500,021	630,170,525							
Building development costs	9.2	128,135,837	147,439,759							
		687,635,857	777,610,284							
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 2022	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	
Adjustments		(666,662)							(666,662)	
Additions		-	122,500	-	560,990	63,150	-	-	746,640	
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	
Adjustments								(45,451,390)	(45,451,390)	
Additions		-	290,274	-	1,114,840	141,850	-	-	1,546,964	
Balance at 31 December 2023	380,788,639	248,131,099	101,320,265	60,179,729	24,894,896	33,636,623	10,193,250	-	859,144,501	
Depreciation										
Balance at 1 January 2022	-	52,458,185	83,306,401	52,505,798	21,350,182	26,589,162	10,193,250	-	246,402,978	
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	-	58,661,462	93,404,771	58,523,771	22,159,501	29,935,647	10,193,250	-	272,878,402	
Charge for the year	-	6,203,277	10,121,990	6,017,973	1,066,020	3,356,818	-	-	26,766,079	
Balance at 31 December 2023	-	64,864,739	103,526,761	64,541,744	23,225,521	33,292,465	10,193,250	-	299,644,481	
Carrying amounts										
At 31 December 2022	380,788,639	189,469,637	7,625,220	1,655,958	1,620,555	3,559,126	-	45,451,390	630,170,525	
At 31 December 2023	380,788,639	183,266,360	(2,206,495)	(4,362,015)	1,669,375	344,158	-	-	559,500,021	
9.2 Building development costs										
	2023 LKR	2022 LKR								
Cost or deemed cost										
Balance at 1 January	386,954,261	386,954,261								
Balance at 31 December	386,954,261	386,954,261								
Amortisation										
Balance at 1 January	239,514,502	213,924,317								
Charge for the year	19,303,923	25,590,185								
Balance at 31 December	258,818,425	239,514,502								
Carrying amounts as at 31st	128,135,837	147,439,759								

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 2023	Amortised during 2023	Cumulative amortisation balance at 31 Dec 2022	Carrying amounts of building development cost at 31 Dec 2023
Museum	2013	172,847,765					
Museum	2014	1,881,295					
Museum	2015	389,178					
Total		175,118,238	5.77%	94,152,628.00	10,101,214.00	104,253,842.00	70,864,396.00
Battaramulla	2013	117,704,905					
Battaramulla	2014	7,119,772					
Battaramulla	2015	9,744,208					
Total		134,568,885	5.77%	71,122,996.00	7,762,239.00	78,885,238.00	55,683,647.00
Pinnawala	2013	10,086,000	10.00%	10,086,000.00		10,086,000.00	-
Wagolla	2014	810,485	10.00%	729,438.00	81,048.00	810,485.00	-
Peradeniya	2013	31,657,965					
Peradeniya	2014	8,968,352					
Peradeniya	2015	677,222					
Total		41,303,539	10.00%	40,271,260.00	1,032,280.00	41,303,539.00	-
Welipanna	2013	10,269,019	10.00%	10,269,019.00		10,269,019.00	-
Race course	2013	1,113,613	10.00%	1,113,613.00		1,113,613.00	-
Katunayake	2013	1,060,004	10.00%	1,060,004.00		1,060,004.00	-
Unawatuna	2013	1,000,004	10.00%	1,000,004.00		1,000,004.00	-
K-Zone	2013	8,353,071	10.00%	8,353,071.00		8,353,071.00	-
Thunmulla		769,767	10.00%	615,830.00	76,977.50	692,807.00	76,960.00
kandy	2019	1,993,423					
Adjusted	2020	508,213					
		2,501,636	10.00%	740,638.50	250,164.00	990,802.50	1,510,833.50
Grand total		386,954,261		239,514,502	19,303,923	258,818,424	128,135,837

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

		2023	2022
10. Inventories	Notes	LKR	LKR
Showroom trading first quality finished goods		349,816,762	328,862,842
Second quality finished goods		173,806,680	154,646,764
Raw materials and work in progress	10.1	392,295	392,295
		524,015,737	483,901,901

10.1 Raw materials and work in progress

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

		2023	2022
11. Trade and other receivables	Notes	LKR	LKR
Trade receivables	11.1	15,080,268	14,930,358
Other receivables	11.2	8,666,539	12,069,562
Deposits and prepayments	11.3	59,384,096	62,980,524
		83,130,903	89,980,444
11.1 Trade receivables			
Trade Debtors		16,229,979	23,562,897
Doubtful Debtors	11.4	(9,578,372)	(9,578,372)
Receivable Credit Card		8,428,661	945,833
		15,080,268	14,930,358
11.2 Other receivables			
Staff loans		122,250	265,000
Rent receivable		8,057,192	11,804,919
NBT receivable		485,097	
Miscellaneous Receivable		2,000	(357)
		8,666,539	12,069,562
11.3 Deposits and prepayments			
Security deposits		50,000	126,022
Prepayments		5,341,392	4,229,119
Advances paid		42,793,490	35,181,010
Retention money		500,000	12,502,564
Refundable deposit		10,699,214	10,828,714
Guarantee receivables		-	113,095
		59,384,096	62,980,524
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

	2023	2022
	LKR	LKR
12. Cash and cash equivalents		
Cash at bank	54,357,013	52,051,111
Cash in hand	4,845,611	1,426,383
	59,202,624	53,477,494
Other components in revenue reserve		
Opening balance	(123,399,006)	(124,540,999)
Previous year revision	(97,566,464)	1,141,993
	(220,965,470)	(123,399,006)

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

	2023	2022
	LKR	LKR
13. Retirement benefit obligations		
Opening balance	57,679,530	56,925,460
Gratuity provision for the year	8,401,558	2,827,910
Gratuity paid during the year	(6,779,865)	(2,073,840)
Closing balance	59,301,223	57,679,530

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

Description of the grant	Year	Amortisation rate	Original grant received	Unamortised balance as at 31 December 2022	Amortised amount during 2023	Unamortised balance as at 31 December 2023
Economic Development	2012	10%	100,000,000			
Ministry of Trade and Commerce	2013	10%	36,000,000			-
Budget allocation	2013	10%	10,224,643			-
Budget allocation	2013	10%	42,109,637	4,210,962	4,210,962	-
Budget allocation	2013	10%	11,099,920			-
Budget allocation	2013	10%	7,828,426			-
Economic Development	2014	10%	35,000,000	3,500,000	3,500,000	-
Budget allocation	2014	10%	11,137,374	1,113,749	1,113,749	-
Total			253,400,000	8,824,711	8,824,711	-

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

	2023	2022
	LKR	LKR
15. Long term borrowings		
Opening balance	503,616,664	477,586,230
Loan obtained during the year	-	177,076,555
Loan paid during the year	(75,792,683)	(151,046,121)
Closing balance	427,823,981	503,616,664
(Less) Payable within one year	(8,332,827)	(129,310,287)
Long term loan obligations	419,491,154	374,306,377

15.1 Bank of Ceylon – Loan Balance Rs.256.8 Mn as at end 2023

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 2023. Therefore as provided by the Central bank of SL many moratoriums' were taken in 2020 and 2023 and the loans were re-structured to suit the then prevailing cash flow situation in 2023 and loans are being currently serviced accordingly.

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

2021 BOC loan balance	Rs .306.0 Mn
2022 BOC interest & capital	Rs. <u>26.6 Mn</u>
Total BOC loan balance	Rs. 332.6 Mn
2023 BOC capital paid	Rs. <u>75.8 Mn</u>
Total BOC loan balance	Rs. 256.8 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 and the loan are being re-structured with the substantial wave off in 2023 period.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	2023	2022
	LKR	LKR
16. Trade and other payables		
Trade payables	329,473,485	255,675,927
Other payables	115,368,931	112,832,631
Accrued expenses	90,162,578	88,142,226
	535,004,994	456,650,784
17. Short term borrowings		
Current portion of the long term loan obligations	8,332,827	129,310,287
Short term loan	0	2,330,348
	8,332,827	131,640,635
	2023	2022
	LKR	LKR
18. Bank overdrafts		
Bank overdrafts	1,361,705	986,112

The bank overdraft amounting to Rs.1,361,705.00 (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 2023
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 2023 as per Section 12 of the National Audit Act, No. 19 of 2018.

The aforesaid report is sent herewith.

Sgd.by / W.P.C.Wickramaratne
Auditor General

Copies:-

1. Secretary, Ministry of Industry and Entrepreneurial Development
2. Secretary, Ministry of Finance, Planning and Economic Development

My No.: IMT/B/SLHB/237/2023/FS

Your No.: Date: 05th November 2024

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 2023 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 Handicraft Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets 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 Coconut Development Act No.46 of 1971, National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2023, and of its financial performance and its 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 Sections 12, 46, 58, and 77 of Sri Lanka Accounting Standard 12, income tax had not been calculated and accounted for in the year under review.
- b)** Two cases filed against the board by two employees had not been disclosed as per Section 84 of Sri Lanka Accounting Standard 37.
- c)** According to the financial statements, the trade debtors' balance as of 31 December 2023, was Rs.16,229,979, out of which Rs.11,864,738, representing debtors outstanding between 3 years to 12 years, had not been provision for bad debtors in accordance with Sections 5.4.4 and 5.5 of Sri Lanka Financial Reporting Standard 9.
- d)** The amount of Rs.158,399,824 of the loan amounted to Rs.200 million obtained from the Regional Development Bank in 2013, and the accumulated unpaid interest on the loan amounted to Rs. 12,609,762, which was due for payment as of 31 December 2023. However, the interest on this amounting to Rs.18,534,346 for the year under review had not been accounted for. As a result, the profit had been overstated, and the current liabilities had been understated.
- e)** The inventory shortage of Rs.6,804,182 identified during the physical stock verification for the year under review was neither accounted for nor corrective actions taken to recover the loss. As a result, the inventory balance and the profit for the year were overstated.
- f)** Due to the failure to properly verify the physical inventory and the unresolved discrepancies in the inventory accounting system, the existence of inventory amounting to Rs.196,543,310 included in the financial statements could not be confirmed.
- g)** At the end of the year under review, the carrying value of plant and machinery, as well as furniture, fittings, and office equipment, had been over-depreciated by Rs.2,206,496 and Rs. 4,362,015, respectively. As a result, the value of property, plant and equipment, as well as the profit, had been understated by Rs. 6,568,511

- h) As the value of 04 properties, plant and equipment items was Rs. 64,369,755 according to the Board of Survey reports, which was stated in financial statements as at December 31,2023 as Rs. 220,031,513, rectifications had not been made relevant to the difference of Rs. 155,661,758.
- i) Although the deposit of Rs. 3,701,025 was paid to the Urban Development Authority in 2012 for the Racecourse showroom is non-refundable, it has been recorded as a receivable in the accounts.
- j) Due to the non-implementation of three agreed lease agreements, the contractual value totaled Rs.1,505,000 accounted for, had been overstated in the receivable balance.

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 2021 of the Board

The information that are expected to provide me after the date of this audit report and included in the Annual Report 2023 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 2023 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 obtained 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 institute 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 (c),(d), and (f) of 1.2 in 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.

<u>Reference to Rule Law/ Regulation</u>	<u>Description</u>
(a) Sections 21 and 23 of Chapter XLVIII of volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka:	As decided in the board meeting held on 19 November 2015, two female officers were suspended. However, during the year under review, disciplinary orders had not been issued by the disciplinary authority of the board.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 396(d)	Financial regulations were not followed regarding 27 issued cheques worth Rs.444,346 that were six months past due.
(ii) Public Finance Circular No. 01/2020 dated 28 August 2020, and Financial Regulation 371(5)	The advance amounted Rs.572,490 obtained by six officers was settled with a delay ranging from 30 to 252 days, while the advance amount of Rs. 483,000 received six officers was settled in the following year.
(iii) Financial Regulation 502(2) and Management Audit	A fixed asset register had not been properly maintained, and information regarding purchases worth

	Circular No. DMA/2009(2) dated 1 September 2009:	Rs.178,345,544 related to four categories of assets had not been updated correctly.
(c)	Paragraph 6.6 of the Operational Manual for State Enterprises introduced by Public Enterprises Circular No. 01/2021 dated 16 November 2021	The financial statements for the year 2023 were submitted to the Auditor General on 5 August 2023, after a delay of six months, and the draft annual report had not been submitted by the date of this report.
(d)	Social Security Contribution Tax Act No. 25 of 2022:	Action had not been taken to pay monthly tax payments based on self-assessment to the Inland Revenue Department. As a result, Rs. 6,590,693 had accumulated by the end of the year.

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) In 2022, handicraft items and gem and jewellery products worth Rs.20,731,487 were sent to the Global Village Exhibition held in Dubai. Of this, gem and jewellery items worth Rs.7,200,424 were returned. However, these items had not been handed back to the board by the authorized

agent. As of the audit date, 5 February 2024, Rs.2,706,213 of the exhibition sales value of Rs.13,531,064 had still not been received by the board.

- b) Taxes outstanding for several years, (income tax, economic service charge, nation-building tax and value-added tax) amounting to Rs.46,125,572, and withholding tax of Rs.1,494,183 related to the years 2018 and 2019 had not been remitted to the Department of Inland Revenue. Additionally, audit fees amounting to Rs.9,295,157, payable to the National Audit Office for audit services provided to the board from 2011 to 2022, had not been paid during the review year.
- c) The plant and machinery and buildings valued at Rs.4,921,120 belonging to the Keselwatta Project, which had been closed since 2009, have remained idle without being used for any operational purpose. Additionally, an amount of Rs.1,041,600 was being incurred for its security annually.
- d) The premises of approximately 40,830 square feet of the Fort showroom building had remained idle for a long period due to dilapidation. Action had not been taken to renovate and utilize the building.
- e) Although the land on which the Galle showroom is located and the two-story building were transferred to the board through Gazette Notification No. 670 dated 5 July 1991, action had not been taken to obtain legal ownership by the end of the year under review.
- (f) An amount of Rs. 107,548,197 was due from the Department of Museum which was incurred by the board for the construction activities of the Laksala showroom located at the Museum premises which was removed in November 2023. However, that amount had not been recovered up to date.
- (g) The land and building, comprising 1 acre 30.6 perches, which belonged to the Gall Unawatuna Salusala institution, was transferred to the Board through a Cabinet decision dated 11 October 2012 and numbered 12/1523/553/020 and the board, had been paid Rs.15,248,575 in 2012 as purchase price. However, the Lanka Salusala institution transferred this land to the Industrial

Development Board on 22 September 2023 for Rs.25,000,000. At there, the value paid by the board as the purchase value had not been recovered from the Salusala institution even on 25 September 2024.

W.P.C.Wickramaratne
Auditor General