



ශ්‍රී ලංකා හස්ත කර්මාන්ත මණ්ඩලය
இலங்கை கைப்பணிகள் சபை
Sri Lanka Handicrafts Board



2018

වාර්ෂික වාර්තාව

ஆண்டு அறிக்கை

Annual Report



Annual Report 2018

Laksala

Sri Lanka Handicrafts Board

TABLE OF CONTENTS

CORPORATE INFORMATION	1
LAKSALA SHOWROOMS NETWORK	2
VISION & MISSION	3
REVIEW OF THE PERFORAMANCE	4 – 7
OPERATIONAL REVIEW	8 – 11
MANAGEMENT	12-13
BOARD OF DIRECTORS	14
SENIOR MANAGEMENT TEAM	15

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME	18
STATEMENT OF FINANCIAL POSITION	19
STATEMENT OF CHANGES IN EQUITY	20
STATEMENT OF CASH FLOWS	21
NOTES TO THE FINANCIAL STATEMENTS	22 -37
AUDIT GENERAL'S REPORT	38 - 43

CORPORATE INFORMATION

NAME OF THE BOARD

SRI LANKA HANDICRAFTS BOARD - LAKSALA

LEGAL FORM

STATUTORY BOARD INCORPORATED BY THE NATIONAL CRAFTS COUNCIL & AFFILIATED
INSTITUTIONS ACT NO. 35 OF 1982

HEAD OFFICE

NO : 215, BAUDHALOKA MAWATHA, COLOMBO 7

PHONE : 011 2055717 / 011 2055501

FAX : 011 2594872

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

WEBSITE : www.laksala.gov.lk

SALES INQUIRIES

PHONE : 011 2680925

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

AUDITORS

AUDITOR GENERAL'S DEPARTMENT

BANKERS

BANK OF CEYLON

PEOPLES' BANK

LAKSALA SHOWROOMS NETWORK

01.Fort	No. 60, York Street, Colombo 01.	0112323514
02.Thummulla	No.215, Baudhaloka Mawatha,Thummulla, Colombo 07.	0112580579
03.Kandy	No.05, Sangaraja Mawatha, Kandy.	0812222087
04.Katubedda	No.282, Galle Road, Katubedda, Moratuwa.	0112605600
05.National Museum	Laksala Museum Premises, Colombo 07.	0112698263
06.Battaramulla	Ape Gama, Pelawatta, Battaramulla. .	0112786026
07.Welipenna I	Southern Expressway,Stopover, “A” BranchA4 & A5, Welipenna.	0342241607/8
08. Galle	No.74/1, Samudra Mawatha, Galle.	0912222783
09.Pinnawala	Elephant Orphanage, Pinnawala .	0352265015
10.Peradeniya	No.14, Botanical Gardens, Peradeniya.	0812389253/63
11.Katunayake	54 D, Departure Transit Area, Bandaranaike International Airport, Katunayake.	0112260167

Our Vision

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

Our Mission

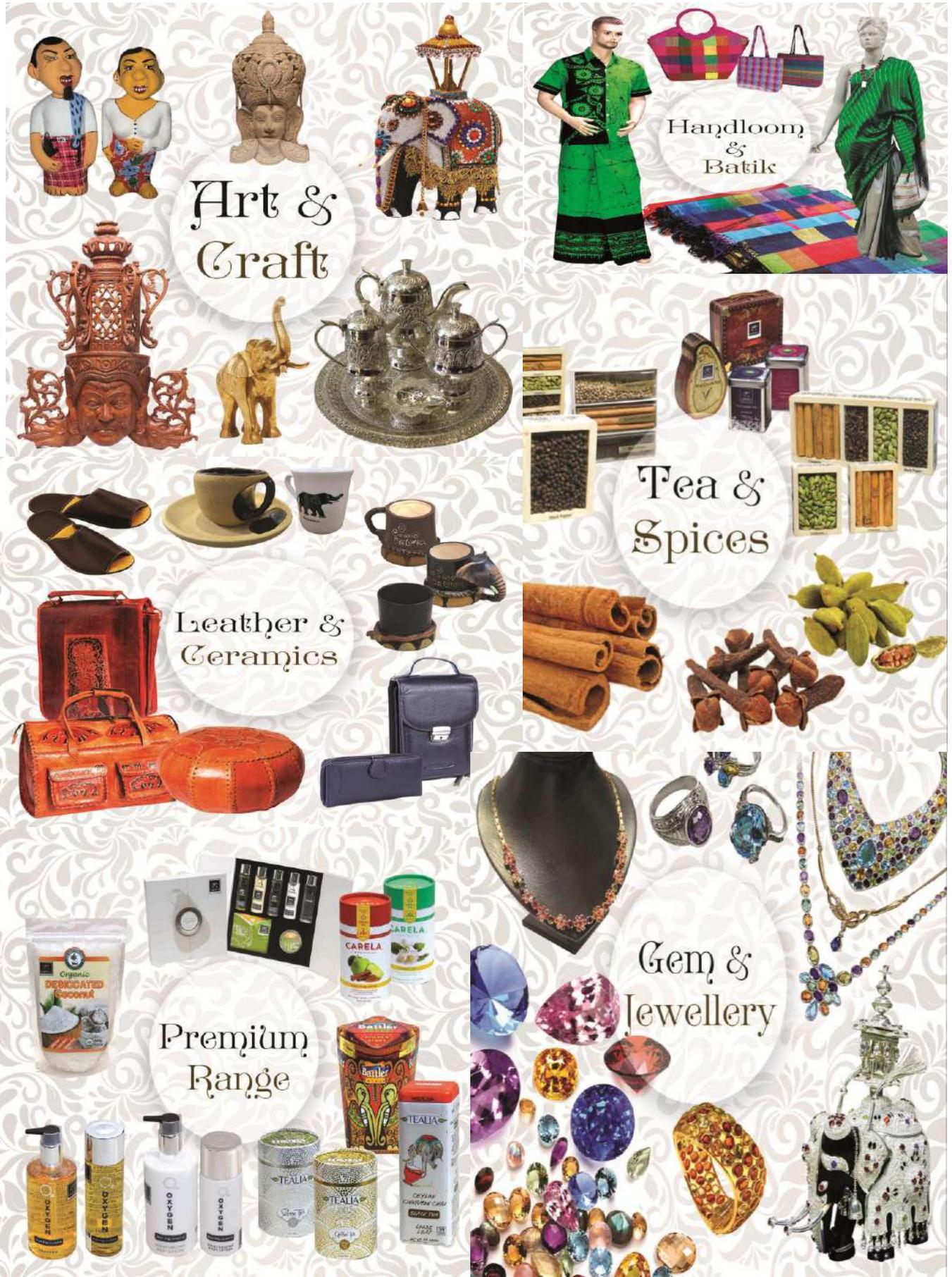
To be a commercially viable institution of social responsibility expanding the growth potential in the sphere of gifts and souvenir items and opening up large scale marketing opportunities to rural manufacturers with high value added contribution to the tourism industry.

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 the year 1964 with the objective of opening up local as well as overseas market opportunities for the local handicraft manufacturers and it has been incorporated as the Sri Lanka Handicrafts Board under the National Crafts Council and Affiliated Institutions Act No. 35 of 1982. Laksala has by now become the oldest and largest sales network owned by the government in this sphere of activity.



Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasantly entertaining customer service

As Laksala was in a dire need of personnel to go hand in hand with the modern market trends action was taken to maintain a competent staff strength at a composition of 40% and 60% respectively on a fixed and contract basis with the enhancement of their efficiency by means of proper necessary training and through motivation. The entire process of new recruitments required for an excellent customer care was undertaken on the basis of contract appointments. These measures have therefore immensely contributed to further accomplish the primary objectives of the institution by way of linking the salaries and allowances they draw onto their increased efficiency and productivity levels.

Network of Supplies

The network of Laksala supplies through its showrooms encompasses the purchase of gifts and souvenir items meant to be sold, planning of its production line, quality control as well as provision of modern designs. Local handicraft manufacturers registered as 700 towards the end of the year 2017 have been increased further during this year and new marketing opportunities for new manufacturers to gain access into these fields were also widely made available.

Gaining access into online sales facilities via internet

During the year 2018 too, Laksala implemented its marketing methods more extensively in such a manner as to enable its customers world over to gain access into online internet trading facilities to purchase the range of Laksala items of their choice from anywhere in the world.

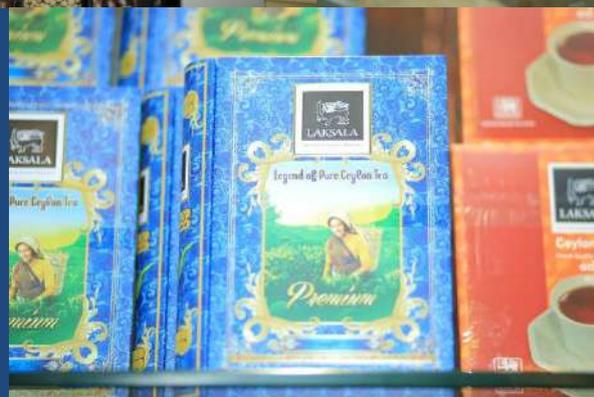
Significant Training Programs conducted during the year

- Training programme on Procurement
- Training programme on the Office Management and Financial Regulations
- Training programme on the Management of Fixed Assets
- Training programme on Labor Productivity
- Training programme on the Document Management and Preservation

Engaging with Stakeholders

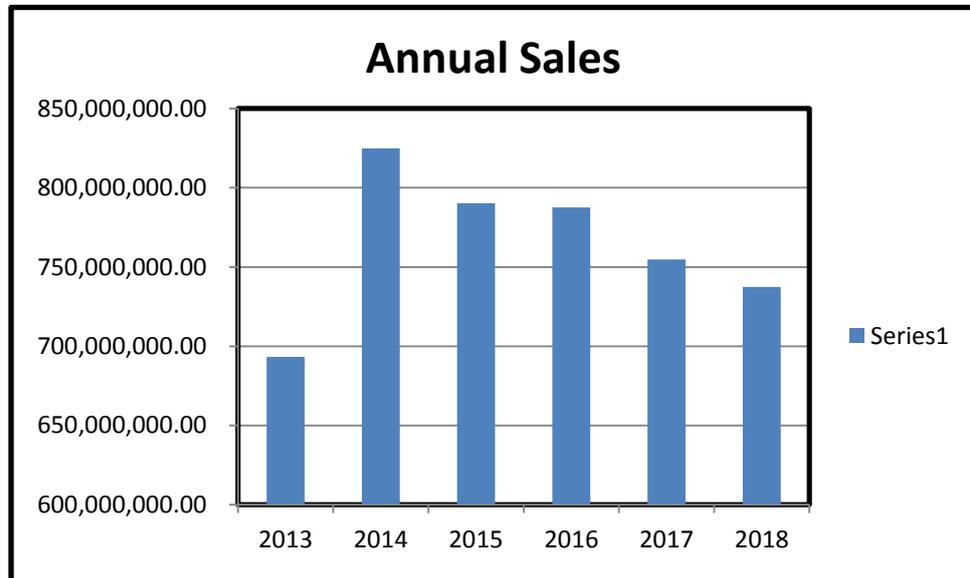
Stakeholder Group	Channels of Engagement	Key areas of interest for organization
Employees	<ul style="list-style-type: none"> • Employee Satisfaction Survey • Internal Circulars • Intranet • Grievance handling procedures • Small group meeting with Chief Executive Officer 	<ul style="list-style-type: none"> • Occupational health and safety • Remuneration and benefits • Career progression • Skills and knowledge development • Human rights at the work place • Work life balance
Customers	<ul style="list-style-type: none"> • Customer Satisfaction Survey • Direct Contact • Customer Service and Support Points of Contact • Websites 	<ul style="list-style-type: none"> • Quality and Reliability of products • Ethical Productions • Value for given price • Innovation of products to meet new markets and customer needs
Governments and other regulators	<ul style="list-style-type: none"> • Circulars • Financial and other reporting • Meetings 	<ul style="list-style-type: none"> • Ethical Conduct • Environmental and Social Governance • Sustainable Profitability
Suppliers and Service Providers	<ul style="list-style-type: none"> • Direct Contact • Supplier Appraisal • Direct Dialogue • Meetings 	<ul style="list-style-type: none"> • Protect and encourage Craftsmen and entrepreneurs • Ethical Conduct • Efficiency and effectiveness of operations • Competitive advantage

Operational Review

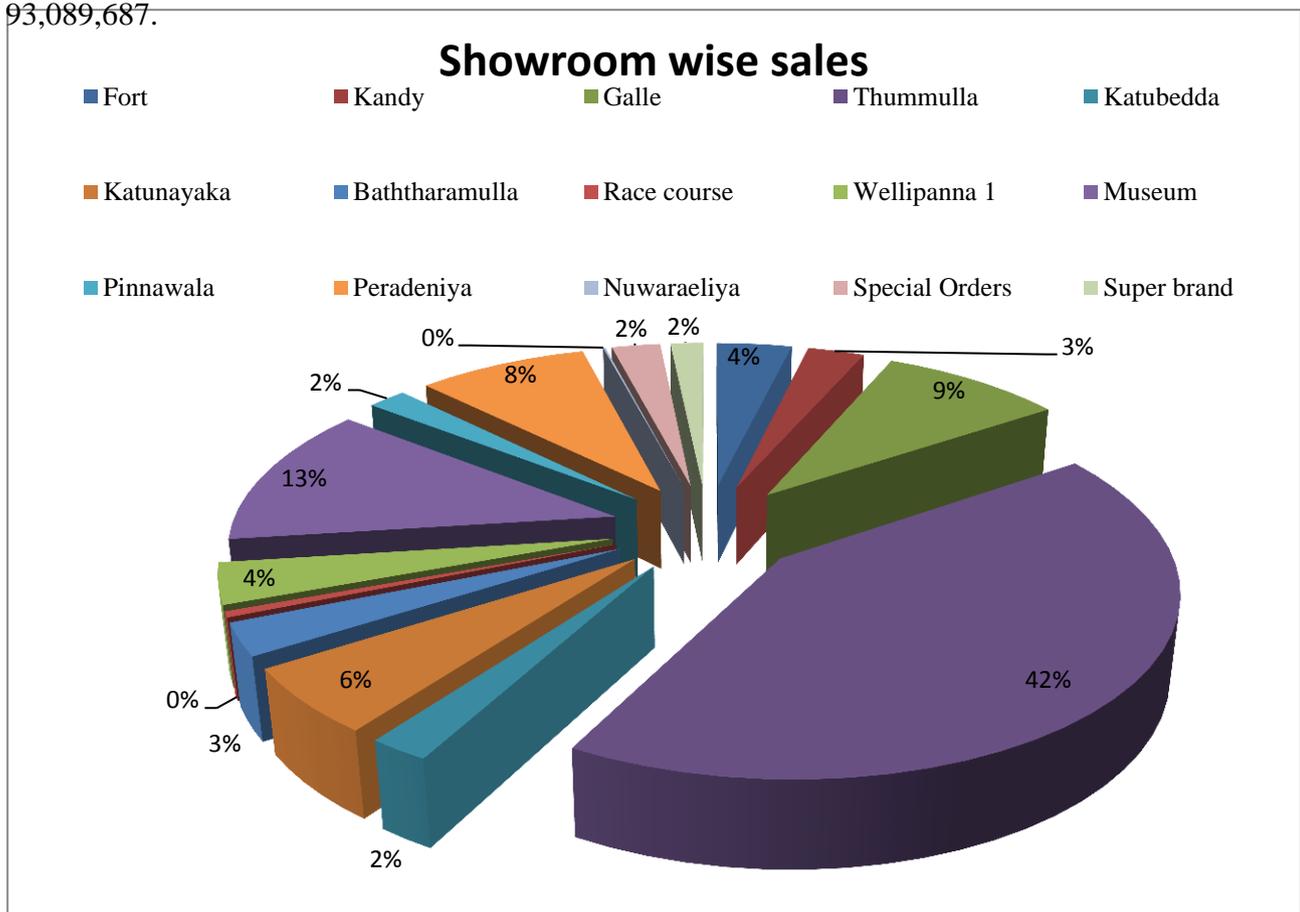


Financial Performance Summary

During the year under review 2018, Laksala recorded a total turnover of Rs.737,283,033 whereas the respective cost of sales was Rs. 306,324,003. The graph below shows the operational summary of the Laksala over the past five years.

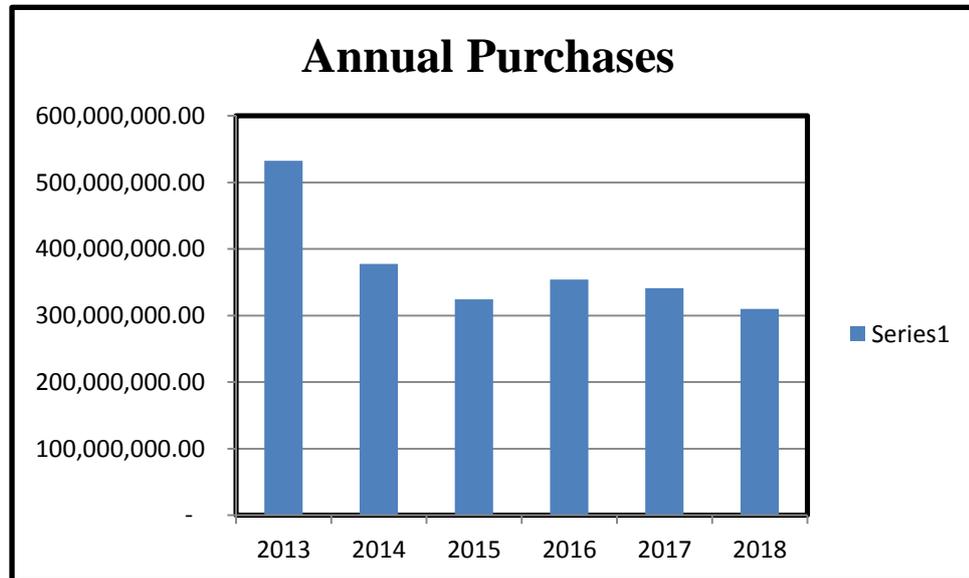


In the analysis of sales occurred during the year 2018 at Thummulla Showroom secured the place of major contributor in showroom sales amounting to Rs.314,092,034 whilst the Museum Showroom was the next main contributor of showroom sales accounting for a turnover of Rs. 93,089,687.

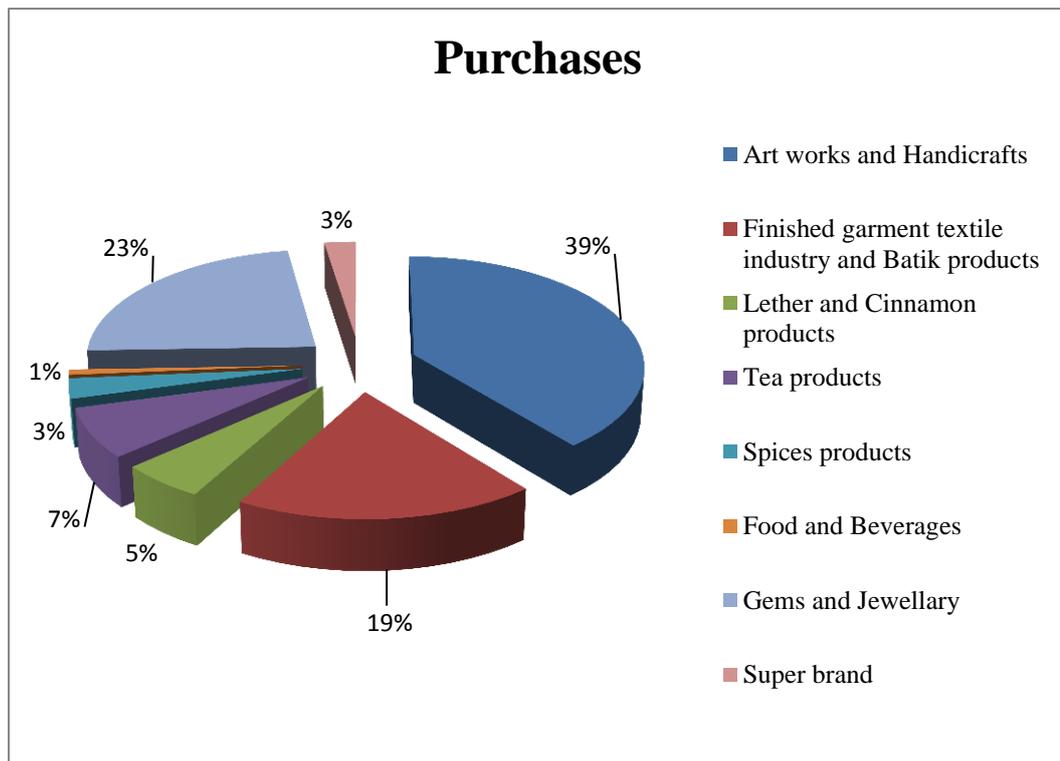


Analysis of Purchases

During the year 2018, Laksala has made purchases to the value amounting to Rs. 309,685,841. The graph below shows how Laksala made its purchases over the past five years.



The following graph further depicts the purchases involving the year 2018 according to the classifications of items. In the consideration of the purchases in 2018, the representation of the high percentage attributes to art work items and handicraft items.

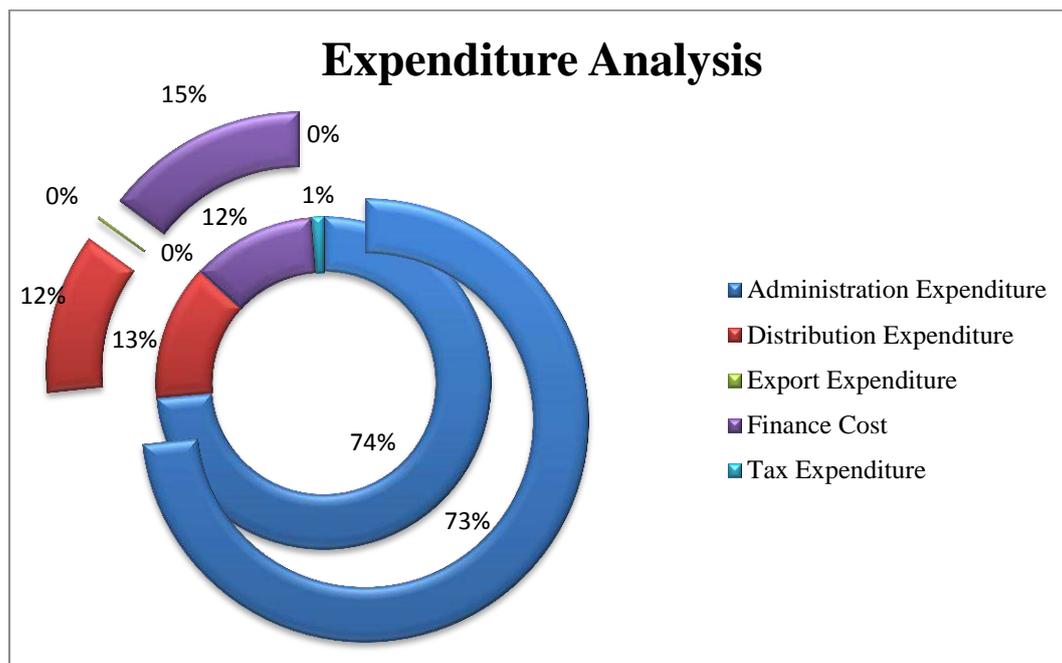


Expenditure Analysis

As a cost reduction measure during the year 2018, total expenditure has been curtailed up to Rs. **477,158,666** which was a **10.64%** achievement when it is compared with the previous year.

	2018	2017
Administration Expenditure	313,643,115	349,774,444
Distribution Expenditure	56,287,682	55,789,513
Export Expenditure	-	1,173,468
Finance Cost	51,289,163	70,421,241
Tax Expenditure	5,149,100	-
	426,369,060	477,158,666

The graphs below show the composition of the total expenditure in comparison with the previous year.



Management



Sri Lanka Handicrafts Board – Laksala has carried out its functions in accordance with the Acts, Government Circulars and other financial and administrative instructions relating to overall operational functions and ensured the implementation as per guidelines of Good Governance and Procurement. The Administration and Human Resource Division played a substantial role in the management towards achieving goals and objectives of the organization as well as for the provision of the other support services. During the year under review the staff constituted 135 personnel, details of which are as follows:

<u>Overall Staff as at 31.12.2018</u>		
Senior Level	08	
Secondary Level	08	
Tertiary Level	57	
Preliminary Level	<u>10</u>	83
Staff on Contract Basis		<u>52</u>
Total		<u>135</u>

The staff strength during the year under review in comparison to the previous year has been decreased to 135 from 158. Building up of a well-trained, committed and efficient work force has become a very vital aspect for the implementation of a properly drawn out short term, medium term and long term business plan in an environment of competitive trading. Therefore, measures have been taken to improve the quality and the productivity of the employees by implementing training and development programs for the sales staff as well as the support staff and also by introducing an attractive incentive payment scheme for them. Apart from this, the new organizational structure with overall cadre strength of 201 personnel has been met with the approval of the Department of Management Services. In addition, further instructions have been issued for maintaining the overall staff strength comprising 40% of fixed employees and 60% of contract employees. As such, it is commendable that the institution was able to maintain a suitably qualified new staff for its Sales Division as well as for the other divisions with less commitment and responsibility towards the entity.

Sri Lanka Handicrafts Board - Laksala

Board of Directors

No.	Name	Designation
01	Mr.M.Hamza	Chairman
02	Mr. K.P.H. Wijewardena	Board Member
03	Mr.M.Nayanachandra	Board Member
04	Mr.G.D.S.P.Kumara	Board Member
05	Mr.A.A.A.Ruwaiz	Board Member
06	Mr.H.M.M.Ruwaith	Board Member
07	Dr. M.H.M Wazeer	Board Member
08	Dr.S.M.M.Ismail	Chairman (up to 2018/04/26)
09	Mr.R.A.L.Udaya Kumara	Board Member (up to 2018/05/11)
10	Mr.G.W.Somarathne	Board Member (up to 2018/05/11)
11	Mr.H.G.Dandeniya	Board Member (up to 2018/05/11)
12	Mr.I.Riyaz	Board Member (up to 2018/09/18)

Sri Lanka Handicrafts Board - Laksala

Senior Management Team

Mr. M.N.M.A. Ahlam	Director General / Chief Executive
Mr. C.N. Dahanayaka	Director(Human Resources / Administration)
Mr. K.C. Jayawardena	Director (Sales)
Mr. E. Alan Delilkan	Acting Director (Finance)
Mr. K.P.P.S.K. Pathirana	Chief Internal Auditor
Mrs. Devika Kumari Athukorala	Deputy Director (Distribution)
Mrs. Vajira Samararatna	Deputy Director (Procurement)
Mr. Sampath Seneviratna	Assistant Director (Human Resources / Administration)
Mr. Dinesh Abeykoon	Head of Information Technology

Our Gratitude

On behalf of Laksala, I first of all profusely thank His Excellency the President of the Democratic Socialist Republic of Sri Lanka, the Hon. Prime Minister, the Hon. Minister of Industry and Commerce, Resettlement of Protected Displaced Persons, Co-operative Development & Vocational Training & Skills Development and the Hon. Deputy Minister. And I also wish to extend my gratitude to the members of the Board of Directors for making judgements and decisions that are incessantly required to elevate the institution into a higher pedestal.

Furthermore, I owe a debt of gratitude to the Secretary of the Ministry and other Ministry officials for extending us support for the progression of the institution when and where necessary.

I also thank the Heads of Divisions who marshalled their members of the staff fluently for better administration, finance and marketing activities of the institution as well all other members of the entire staff whose contribution was instrumental in keeping up the business of the institution more efficiently and effectively.

My special thanks go to the manufacturers supplying handicraft and souvenir items including traditional and innovative products bringing forth new creations after identifying consumer needs having joined hands with us and our amiable and valued local as well as foreign clientele who reposed trust in our institution at all times.

I, in conclusion, whilst stating that our institution will in future resort to all necessary measures to strengthen the Sri Lankan rural economy and uplift the living standard of the rural community, do also expect to achieve the mark of sales income up to Rs. 1000 million in the years that lie ahead.

I do expect to expand the sales of the institution accordingly garnering the expert services required towards achieving further increase in marketing and sales of the institution during the year 2018.

Moreover, plans have been drawn out to keep the profit percentage of the institution on the increase during the year 2019 by way of curtailing overhead expenditure of the institution by a considerable margin according to a planned out strategy to obtain the effective and efficient contribution of the entire staff through the systematic management of the material and human resources of the institution.

I, in conclusion, whilst stating that our institution will in future resort to all necessary measures to strengthen the Sri Lankan rural economy and uplift the living standard of the rural community, do also expect to achieve the mark of sales income up to Rupees One Billion in the years that lie ahead.

I do expect to further expand the sales of the institution accordingly garnering the expert services required towards achieving further increase in marketing and sales of the institution during the year 2019.

Moreover, plans have been drawn out to keep the profit percentage of the institution on the increase during the year 2019 by way of curtailing overhead expenditure of the institution by a considerable margin according to a planned out strategy to obtain the effective and efficient contribution of the entire staff through the systematic management of the material and human resources of the institution.

Chairman

Sri Lanka Handicrafts Board-Laksala

Financial Statement

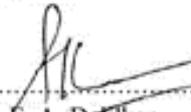
SRI LANKA HANDICRAFTS BOARD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 LKR	2017 LKR
Revenue	3	737,283,033	755,425,556
Cost of sales		(306,324,003)	(315,568,451)
Gross profit		430,959,030	439,857,105
Grants received		-	50,340,000
Other income	4	11,851,544	10,650,257
Administrative expenses		(313,643,115)	(349,774,444)
Distribution expenses		(56,287,682)	(55,789,513)
Results from operating activities		72,879,777	95,283,405
Finance cost	5	(51,289,163)	(70,421,241)
Profit before tax	6	21,590,614	24,862,164
Tax	7	(5,149,100)	-
Profit for the year		16,441,514	24,862,164

Notes from pages 9 to 25 form an integral part of these financial statements. Figures in brackets indicate deductions.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 LKR	2017 LKR
Assets			
Non-current assets			
Property, Plant & Equipment	8	993,113,357	1,040,666,126
Total non-current assets		993,113,357	1,040,666,126
Current assets			
Inventories	9	463,384,277	578,948,995
Trade and other receivables	10	108,718,915	196,464,192
Cash and cash equivalents	11	24,451,300	9,470,676
Total current assets		596,554,492	784,883,863
Total assets		1,589,667,849	1,825,549,989
Equity and liabilities			
Equity			
Stated capital		73,628,878	73,628,878
Capital reserves		510,806	510,806
Revaluation reserves		454,366,157	454,366,157
Capital grants		103,951,172	103,951,172
Other components in revenue reserve	12	(178,017,763)	(38,180,995)
Retained earnings		5,766,701	(10,674,813)
Total equity		460,205,951	583,601,205
Non-current liabilities			
Retirement benefit obligations	13	44,191,479	38,062,261
Deferred income	14	100,184,713	125,524,713
Long term borrowings	15	164,610,344	197,828,391
Total non-current liabilities		308,986,536	361,415,365
Current liabilities			
Trade and other payables	16	524,046,871	552,865,918
Income tax payable	7	5,149,100	-
Short term borrowings	17	275,388,387	298,600,257
Bank overdrafts	18	15,891,004	29,067,244
Total current liabilities		820,475,362	880,533,419
Total liabilities		1,129,461,898	1,241,948,784
Total equity and liabilities		1,589,667,849	1,825,549,989


 E. A. DeSilva
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 30.April 2019 at the Board meeting held in Laksala Thumulla.


 Madhura De Silva
Chief Executive Officer


 Pradeep Kumara
Board Member


 Muhammad Hamza
Chairman

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Stated capital		Capital reserves		Revaluation reserves		Capital grants		Retained earnings		Total equity	
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1 January 2017	73,628,878	510,806	454,366,157	103,951,172	(35,536,977)							596,920,036
Profit for the year	-	-	-	-	24,862,164							24,862,164
Prior year errors op balance					(35,648,094)							(35,648,094)
Adjustments to prior year errors					(2,532,901)							(2,532,901)
Balance as at 31 December 2017	73,628,878	510,806	454,366,157	103,951,172	(48,855,808)							583,601,205
Adjustments to prior year errors					(139,836,768)							(139,836,768)
Profit for the year					16,441,514							16,441,514
Balance as at 31 December 2018	73,628,878	510,806	454,366,157	103,951,172	(172,251,062)							460,205,951

Notes from pages 9 to 25 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 2018

	Notes	2018 LKR	2017 LKR
Cash generated from operations			
Profit before tax		21,590,614	24,862,164
Adjustments for:			
VRS amortization charge		3,278,092	999,909
Retirement benefit obligations		6,704,212	6,467,126
Interest expenses		51,289,163	70,421,241
Depreciation		24,329,921	28,398,039
Amortization of capital expenditure costs		25,340,000	22,960,906
Grants amortised		(25,340,000)	(25,340,000)
		107,192,002	128,769,385
Changes in working capital			
Inventories		(16,718,542)	(23,047,843)
Trade and other receivables		84,467,185	(34,396,884)
Trade and other payables		(36,372,557)	36,574,985
Cash generated from operations		138,568,088	107,899,643
VRS paid		-	(336,725)
Gratuity paid		(574,994)	(2,392,846)
Interest paid		(51,289,163)	(70,879,660)
Net cash generated from operating activities		86,703,931	34,290,412
Cash flows from investing activities			
Purchases of property, plant & equipment		(2,117,152)	(5,218,310)
Net cash used in investing activities		(2,117,152)	(5,218,310)
Cash flows from financing activities			
Long term loans obtained		15,824,872	68,208,925
Loan repayments		(72,254,789)	(116,408,626)
Net cash used in financing activities		(56,429,917)	(48,199,701)
Net increase/(decrease) in cash and cash equivalents		28,156,862	(19,127,599)
Cash and cash equivalents at the beginning of the year		(19,596,566)	(468,967)
Cash and cash equivalents at the end of the year		8,560,296	(19,596,566)
Bank overdrafts	18	(15,891,004)	(29,067,244)
Cash in hand and at bank	11	24,451,300	9,470,678
		8,560,296	(19,596,566)

Notes from pages 9 to 25 form an integral part of these financial statements. Figures in brackets indicate deductions.

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 2018 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.

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.

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%

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.

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.

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 know 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. LKAS 07 – Cash flow statement.

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 135 employees of the organization in the period of 2018. 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 employee's 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 recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised 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.

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.

2.4.14 Revenue Recognition

Revenue is recognized to the extent that at the fair value of the consideration received for the sale of goods and that it is probable that the economic benefits will flow to SLHB, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured considering the received or receivable, net of trade discounts, returns, rebates and applicable taxes. The following specific criteria are also must be met for recognition of revenue:

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.

2.4.15 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 Company’s and Group’s performance.

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.

c) Deferred Expenditure

As part of the re-structuring process, 20 employees opted for Voluntary Retirement Scheme (VRS) offered under the Public Enterprise Department Circular (PED) no.10 and Rs. 10,432,332.25 has been incurred. In order to spread the cost over the balance service period an accounting policy was adopted. Accordingly the cost incurred on each employee is spread over the balance period of service on even basis.

2.4.16 Borrowing Costs

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

2.4.17 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.

2.4.18 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	2018	2017
	LKR	LKR
Showroom sales		
Thummulla	314,092,034	326,117,671
Museum	93,089,687	77,726,202
Galle	67,105,575	59,482,530
Peradeniya	62,476,801	69,474,446
Katunayaka	42,980,562	54,935,264
Fort	27,723,597	25,334,213
Welipenna - 1	26,942,621	20,923,586
Battaramulla	21,321,945	22,398,837
Kandy	20,912,924	21,032,749
Katubadda	16,061,827	17,418,404
Pinnawala	14,247,433	13,665,475
Super brand	11,993,455	6,453,803
Race course	3,859,365	10,502,420
Nuwara Eliya	847,604	-
Total showroom sales	723,655,430	725,465,600
Direct/custom made orders	17,855,513	36,137,275
	741,510,943	761,602,875
Nation building tax (NBT)	(4,227,910)	(6,177,319)
	737,283,033	755,425,556

Operations of the Race course showroom was ceased in September 2018 due to continuous losses incurred by the branch.

4. Other income		
Rental income	11,786,674	10,048,825
Interest on saving account	50,318	-
Circuit bungalow reservation	2,500	151,500
Foreign exchange gain	12,052	449,932
	11,851,544	10,650,257
5. Finance costs		
Bank charges	378,449	388,862
Overdraft interest	95,374	1,422,599
Loan interest	50,815,340	68,609,780
	51,289,163	70,421,241

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

6. Profit before tax

Profit before tax is stated after charging all expenses including the following:

	2018	2017
	LKR	LKR
Directors fees and board meeting expenses	1,273,960	1,469,870
Audit fees	1,568,720	300,000
Non-audit services- others	-	1,487,863
Depreciation on property, plant & equipment	24,329,922	28,398,039
Staff costs-		
Defined contribution plan costs	9,818,356	9,701,142
Defined benefit plan costs	6,704,212	6,467,126
Salaries and allowance	115,989,192	114,157,341
Staff training and development costs	201,500	279,000
Legal fees	1,328,213	672,342
Operating lease rentals	44,555,559	52,124,454
Sponsorships and donations	268,778	780,493

7. Tax

Sri Lanka Handicrafts Board's tax position should be assessed through a formal consultation with the Inland Revenue Department due to the legal nature of the entity, complexities and unique nature of the operations. However, the board decided to provide a tax provision of Rs 5,149,400 for the current year due to profits incurred during the year.

**SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS**

8. Property, plant and equipment

	2018		2017		Articles	Capital work in progress	Total
	LKR	LKR	LKR	LKR			
Freehold assets							
8.1	746,074,570	768,287,339					
8.2	247,038,787	272,378,787					
	993,113,357	1,040,666,126					
8.1 Freehold assets							
Land							
LKR							
395,520,000	248,686,043	97,920,287	58,733,049	30,162,658	28,745,527	45,451,390	905,218,954
Disposals	-	101,717	2,647,183	461,445	1,765,648	-	5,218,309
Balance at 31 December 2017	395,520,000	248,787,760	100,567,470	30,624,103	30,511,175	45,451,390	910,437,263
Additions	517,214	10,000	34,250	262,305	598,575	-	2,117,152
Balance at 31 December 2018	396,037,214	248,797,760	100,601,720	30,886,408	31,109,750	45,451,390	912,554,415
Depreciation							
Balance at 1 January 2017	-	22,652,373	34,627,445	23,121,906	10,669,989	-	113,751,885
Charge for the year	-	4,992,742	8,440,660	6,041,194	3,030,159	-	28,398,039
Balance at 31 December 2017	-	27,645,115	43,068,105	29,163,100	13,700,148	-	142,149,924
Charge for the year	-	4,995,281	10,058,905	309,602	3,061,090	-	24,329,921
Balance at 31 December 2018	-	32,640,396	53,127,010	29,472,702	16,761,238	-	166,479,845
Carrying amounts							
At 31 December 2017	395,520,000	221,142,645	57,499,365	1,461,003	16,811,027	45,451,390	768,287,339
At 31 December 2018	396,037,214	216,157,364	47,474,710	1,413,706	14,348,512	45,451,390	746,074,570
8.2 Building development costs							
Cost or deemed cost							
Balance at 1 January	384,452,630	384,452,630					
Balance at 31 December	384,452,630	384,452,630					
Amortisation							
Balance at 1 January	112,073,843	89,112,939					
Charge for the year	25,340,000	22,960,904					
Balance at 31 December	137,413,843	112,073,843					
Carrying amounts							
At 1 January	272,378,787	295,339,691					
At 31 December	247,038,787	272,378,787					

Building development cost amortisation charge was increased by Rs 2,379,096 to accelerate the amortisation of the building development cost and to align with the capital grant deferred revenue charge for the year of Rs 25,340,000 (2017: Rs 25,340,000)

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

8.2 Building development costs (contd.)

Amortisation Site	Year	Cost incurred	Rate	Cumulative amortisation balance at 01 January 2018	Amortised during 2018	Cumulative amortisation balance at 31 Dec 2018	Carrying amounts of building development cost at 31 Dec 2018
Museum	2013	172,847,765					
Museum	2014	1,881,295					
Museum	2015	389,177					
Total		175,118,237	6%	43,646,555	10,101,214	53,747,769	121,370,468
Battaramulla	2013	117,704,905					
Battaramulla	2014	7,119,771					
Battaramulla	2015	9,744,207					
Total		134,568,883	6%	32,311,811	7,762,237	40,074,048	94,494,835
Pinnawala	2013	10,086,000	10%	5,043,000	1,008,600	6,051,600	4,034,400
Wagolla	2014	810,487	10%	324,193	81,049	405,242	405,245
Peradeniya	2013	31,657,966					
Peradeniya	2014	8,968,353					
Peradeniya	2015	677,220					
Total		41,303,539	10%	19,619,490	4,130,354	23,749,844	17,553,695
Welipanna	2013	10,269,019	10%	5,134,511	1,026,902	6,161,413	4,107,606
Race course	2013	1,113,613	10%	556,804	111,361	668,165	445,448
Katunayake	2013	1,060,000	10%	530,000	106,000	636,000	424,000
Unawatuna	2013	1,000,000	10%	500,000	100,000	600,000	400,000
K-Zone	2013	8,353,071	10%	4,176,535	835,306	5,011,841	3,341,230
Thunmulla		769,781	10%	230,944	76,977	307,921	461,860
Grand total		384,452,630		112,073,843	25,340,000	137,413,843	247,038,787

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

		2018	2017
	Notes	LKR	LKR
9. Inventories			
Showroom trading first quality finished goods		443,175,876	570,105,686
Second quality finished goods		14,810,411	5,839,706
Raw materials and work in progress	9.1	5,397,990	3,003,603
		463,384,277	578,948,995

9.1 Raw materials and work in progress

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

		2018	2017
	Notes	LKR	LKR
10. Trade and other receivables			
Trade receivables		38,689,773	45,383,910
Other receivables	10.1	6,367,938	4,477,411
Deposits and prepayments	10.2	38,000,723	82,456,827
Receivable from related companies	10.3	25,660,481	64,146,044
		108,718,915	196,464,192

10.1 Other receivables

Staff loans		113,750	161,250
Rent receivable		315,000	1,988,169
ESC receivable		5,939,188	2,252,357
VAT receivable		-	64,765
Receivables from voucher sales		-	10,870
		6,367,938	4,477,411

10.2 Deposits and prepayments

Security deposits		1,849,424	1,925,446
Prepayments		8,993,600	16,531,699
Advances paid		11,932,359	13,150,649
Damage stocks control account		-	19,851,106
Retention money		500,000	12,502,564
Refundable deposit		14,715,340	17,834,049
Widower orphanage pension scheme		-	77,993
Guarantee receivables		10,000	583,321
		38,000,723	82,456,827

10.3 Receivable from related companies

Amount due from project		-	38,485,563
Amount due from Ape Gama		25,660,481	25,660,481
		25,660,481	64,146,044

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	2018	2017
	LKR	LKR
11. Cash and cash equivalents		
Cash at bank	22,832,694	4,622,369
Cash in hand	1,618,606	4,848,307
	24,451,300	9,470,676
12. Other components in revenue reserve		
Opening balance	38,180,995	35,648,094
Salary arrears	-	2,644,485
Previous year revision	139,836,768	(111,584)
	178,017,763	38,180,995

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

	2018	2017
	LKR	LKR
13. Retirement benefit obligations		
Opening balance	38,062,261	33,987,980
Gratuity provision for the year	6,704,212	6,467,126
Gratuity paid during the year	(574,994)	(2,392,845)
Closing balance	44,191,479	38,062,261

The liability for retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 135 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 2017	Amortised amount during 2018	Unamortised balance as at 31 December 2018
Economic Development	2012	10%	100,000,000	40,000,000	10,000,000	30,000,000
Ministry of Trade and Commerce	2013	10%	36,000,000	18,000,000	3,600,000	14,400,000
Budget allocation	2013	10%	10,224,643	5,112,321	1,022,464	4,089,857
Budget allocation	2013	10%	42,109,637	25,265,782	4,210,964	21,054,818
Budget allocation	2013	10%	11,099,920	5,549,960	1,109,992	4,439,968
Budget allocation	2013	10%	7,828,426	3,914,216	782,843	3,131,373
Economic Development	2014	10%	35,000,000	21,000,000	3,500,000	17,500,000
Budget allocation	2014	10%	11,137,374	6,682,434	1,113,737	5,568,697
Total			253,400,000	125,524,713	25,340,000	100,184,713

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

	Notes	2018 LKR	2017 LKR
15. Long term borrowings			
Opening balance		364,484,161	442,592,787
Loan obtained during the year		11,700,000	38,300,000
Loan paid during the year		(72,254,789)	(116,408,626)
Closing balance		303,929,372	364,484,161
(Less) Payable within one year	17	(139,319,028)	(166,655,770)
Long term loan obligations		164,610,344	197,828,391

15.1 Bank of Ceylon – Rs. 950 Mn

A loan facility of Rs.150 Mn was arranged from Bank of Ceylon to meet the supplier payments on a revolving credit basis and subsequently reduced the facility in the year 2018 to Rs.125 Mn. Another loan of Rs.300 Mn was taken to finance the working capital requirements to meet construction expenditure which also was obtained from the Bank of Ceylon by mortgaging the Fort building which had been valued at value of Rs.497 Mn.

15.2 Bank of Ceylon – Rs.50 Mn (additional loan request)

A loan of Rs.50 Mn was applied from BOC in 2017 and was approved by the Board of Directors to cover up the working capital and operational requirements but only Rs.38.3 Mn was received. Balance Rs.11.7 Mn was received in the year 2018.

15.3 Regional Development Bank- Rs. 200 Mn

Rs. 200 M facility was obtained from the Rural Development Bank Kelaniya branch to meet urgent working capital requirements. No security was offered by Laksala as the General Treasury has arranged the loan facility.

15.4 Treasury loan – 15 Mn Rs.

15 Mn facility was obtained from government treasury to settle the supplier payments at the rate of 0%.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	Notes	2018 LKR	2017 LKR
16. Trade and other payables			
Trade payables		392,544,616	374,200,441
Other payables		101,510,827	150,171,130
Accrued expenses		29,991,428	28,494,347
		524,046,871	552,865,918
17. Short term borrowings			
Current portion of the long term loan obligations		139,319,028	166,655,770
Short term loan		136,069,359	131,944,487
		275,388,387	298,600,257
18. Bank overdrafts			
Bank overdrafts		15,891,004	29,067,244

The bank overdraft amounting to Rs.15,891,004 (2017: Rs.29,067,244) is the balance appearing in the cash book as of the year end. Laksala does not have bank overdrafts other than the existing revolving loan of Rs. 125 Mn taken from Bank of Ceylon (Please refer note 15).

**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 2018.
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 2018
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 are being held against two senior officers of Sri Lanka Handicrafts Board who have been interdicted in the year 2015.

Chairman,

Sri Lanka Handicrafts Board

Report of the Auditor General on the affairs of the Sri Lanka Handicrafts Board including the Financial Statements and other Legal and Regulatory Requirements for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act No 19 of 2018.

1. Financial Statements

1.1. Adverse Opinion

The audit of the financial statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 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, due to the importance of the matters described in the basis for adverse opinion section in my report, the financial position as at 31 December 2018, financial performance and cash flows for the year then ended do not give true and fair view in accordance with Sri Lanka Accounting Standards

1.2. Basis for adverse opinion

(a) During the year under review, the Board has accounted transaction in the cash register, which was maintained in the SAP computerized accounting system using journal entries. Accordingly, transactions to the total value of Rs.7, 155,350, which are either credit or debit entries, have been accounted using 24 journal entries of the cash register maintained for the current account No 7264 and further transactions to the total value of Rs.32, 221,464, which are either credit or debit entries, have been accounted using 40 journal entries of the cash register maintained for the current account No 6526.

(b) Even though the value of the total allocations for gratuities is Rs. 43,633,230 according to the schedule for allocations for gratuities, which was submitted along with the Financial Statements as at 31 December 2018, the value of the allocations for gratuities as at the above date is Rs. 43,319,441. Therefore the value of allocations for gratuities has been under stated by Rs. 313,789 as per the ledger.

(c) The value of Rs. 5,508,020, which is the total cost of items sold on the special orders as at 31 December 2018, has also been debited to the sales account on special orders as a result of an erroneous command given to the SAP computer software. Further an amount of Rs. 5,508,020, which is to be credited to the cost account of the sales items, has been accounted to the stock account of special orders as a result of an erroneous journal entry, which has been made to rectify the above error. Due to this erroneous entry, the cost account of sales items has been under stated by Rs. 5,508,020 as at 31 December 2018 and Financial Statements have been prepared by way of overstating that amount in stock account of special orders.

(d) Even though the balance of VAT, which is to be settled, as per the Report on the taxes in arrears of the Department of Inland Revenue, is Rs. 716,749 as at 31 December 2018, the value of the taxes to be paid in Financial Statements has been entered as Rs.5, 664,297. Therefore the balance of the VAT account to be paid has been overstated by Rs. 4,947,548. Further the total of the fine to be paid for the

VAT in arrears as per the above mentioned Report on the taxes in arrears of the Department of Inland Revenue, which is Rs. 1,877,463, has not been accounted during the year under review.

(e) Even though the Nation Building Tax to be paid as at 31 December 2018 as per the Report on the taxes in arrears of the Department of Inland Revenue is Rs. 5,383,496, that tax amount has been entered in financial statements as Rs. 28,562,386. As a result of this entry, the value of Nation Building Tax has been overstated in financial statements by Rs. 23,178,890. Further the total of the fine to be paid for the arrears in the Nation Building Tax, which is Rs. 5,365,512 as per Report on the taxes in arrears of the Department of Inland Revenue, has not been accounted during the year under review.

(f) Even though the Economic Service Charge (ESC) to be paid as at 31 December 2018 as per the Report on the taxes in arrears of the Department of Inland Revenue is Rs. 2,926,736, that tax amount has been entered in financial statements as Rs. 23,332,443. As a result of this entry, the value of Economic Service Charge has been overstated in financial statements by Rs. 20,405,707. Further the total of the fine to be paid for the arrears in the Economic Service Charge, which is Rs. 1,546,935 as per Report on the taxes in arrears of the Department of Inland Revenue, has not been accounted during the year under review.

(g) The balance of the income tax in arrears, which is to be paid by the Board, is Rs. 22,387,108 as at 31 December 2018 as per Report on the taxes in arrears of the Department of Inland Revenue, and the surcharge on the income tax in arrears is Rs. 590,768. However the Board has not calculated and accounted the income tax and surcharges in previous years and the fine to be paid for the income taxes and surcharges to be paid is Rs. 2,481,404. This amount has also not been accounted as expenses to be paid.

(h) When the depreciation is calculated in year 2018, the depreciation has not been made for the total value of lands and buildings, which is Rs. 48,984,819, and therefore the depreciation has been calculated and understated in accounts by Rs. 1,224,620 during the year under review.

(i) When the balances of the ledger accounts are checked with accounts schedules and financial statements as at 31 December 2018, it is found that a total amount of Rs. 718,258 pertaining to 02 ledger accounts has been overstated in financial statements.

(j) The total value of unsettled advance of Rs. 2,225,750 as at 31 December 2018, which has been granted to 05 purchasing center's for the payment of suppliers, has been deducted from total value of creditors in the preparation of financial statements. As a result of this entry, the value of creditors has been understated in financial statements by the aforesaid value.

(k) It has become impossible to issue invoices for the audit fees as the concurrence has not been granted to the Board to issue them to National Audit Office for year 2015, 2016 and 2017 and therefore allocation has not been made for Rs. 1,568,717, which is the audit fee of year 2017.

(l) Even though the total of the value of stocks pertaining to 14 showrooms and stores as at 31 December 2018 is Rs. 434,008,464, the total value of such stocks is Rs. 433,284,445 as per the reports of the Board of Survey made after physical verification of stocks at the stores and showrooms. Therefore the value of stocks in financial statements has been overstated by Rs. 724,019.

(m) Rs. 14,810,411 has been noted under No 09 of the notes in financial statements as the total value of finished items of second quality. However the value of such stocks as per the reports of the Board of Survey on physical verification is Rs. 7,543,723. Therefore the reports of the Board of Survey, of which the total value is Rs. 7,266,688, have not been submitted for the audit.

(n) Since the excesses, deficits, losses in stocks and damaged stocks, which have been revealed annually by the reports of the Boards of Surveys, have been entered in a suspense account without identifying and rectifying, the suspense account shows a debit balance of Rs. 93,841,464 as at 31 December 2018. Since that debit balance has been written off against the credit balance of the adjustment account of previous years, debit balance of the suspense account and credit balance of the adjustment account of previous years have been understated in the financial statements by Rs. 93,841,464.

(o) Total balance of stocks of Rs. 38,441,797, which is the total of 12 ledger accounts connecting to the stocks of the Board as at 31 December 2018, has been written off by way of crediting it to the adjustment account of previous years using a journal entry without obtaining approval. Therefore financial statements as at 31 December 2018 have been prepared by way of understating the balance of stock account and credit balance of the adjustment account of previous years.

(p) Even though it has been prescribed in para 32 of the standards in Sri Lanka Accounting Standards that an entity shall offset assets and liabilities or income and expenses unless required or permitted by a standard, the Board has prepared financial statements offsetting Rs. 32,208,102, which is the total value of 08 accounts receivables and Rs. 32,208,102, which is the total value of 05 accounts payable, using the ledger account for settlement of long term loan balances No 70401-00-00 but without obtaining the approval of the General Treasury for the purpose.

(q) As per para 110 of Sri Lanka Accounting Standards No 01 on presentation of Financial Statements, adjustments should be made to the opening balance of the account of retained earnings when accounting errors are rectified retrospectively as per LKAS No 08. When the Board prepared the statement of the change in equity as at 31 December 2018, total value of revenue reserve of Rs. 178,017,763 has not been adjusted with the opening balance of the account of retained earnings and it has been adjusted as a reserve of income in a separate column of the statement of the change in equity.

(r) In terms of the para 110 of the aforesaid standard of Sri Lanka Accounting Standard No 08, it requires disclosure in the statements of changes in the equity of the total adjustments to each component of equity resulting from changes in accounting policies and separately from corrections of errors. However it has not adhered to the above and the statement of the Change in equity has been prepared indicating Rs. 139,836,768 as the adjustments of revenue reserve as at 31 December 2018.

(s) The loss of Rs. 93,841,464 identified on stocks as per para 34 of Sri Lanka Accounting Standard No 02 has not been revealed in the financial statements as per section 36 (f) of the standard.

(t) The value of sale on Credit Cards of the Board as at 31 December 2018 is Rs. 27,659,287. Since the particulars of the sales on credit cards and the recoveries by credit cards have not been submitted for auditing separately for each showroom, it has become impossible to check the accuracy of recoveries.

(u) Evidences pertaining to Rs. 10,672,111 of unsettled advances out of the total value of the unsettled advances of Rs. 11,932,359 have not been submitted to the audit for confirmation of the amount.

(v) An amount of Rs. 5,149,100, which is equivalent to 25% on the net profit of the Board for year 2018, has been accounted as an income tax liability but reports on the calculation of taxes, tax payment files and written evidences pertaining go this matter have not been submitted for the audit.

(w) The evidences for audit such as letters of confirmation on creditors' balances, creditors' files, creditors' schedules and time analysis of creditor balances have not been submitted as at 31 December 2018 for the audit in order to confirm the accuracy of 04 accounts to the value of Rs. 41,217,749, which has to be paid.

(x) Even though the total value of 03 bank accounts of the Board at state banks is Rs. 3,428,033 as per the ledger as at 31 December of the year under review, the value is Rs. 5,138,010 as per the confirmation of balances issued by the banks. Therefore there is an unreconciled balance of Rs. 1,709,977.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 Board.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board 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 communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

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

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, 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 not been kept by the Board as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous years as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 except observations in (d), (e), (f),(g), (k), (l), (m), (n), (t), (u), (w) and observations in (a), (b), (II) and 3 (d) under rules and regulations.

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

- to state that any member of the governing body of the Board has any direct or indirect interest in any contract entered into by the Board which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018
- to state that action has been taken not conforming to any common or specific provision issued by the Governing Body or any relevant written law except following observations as per the requirement mentioned in section 12 (f) of the National Audit Act No 19 of 2018.

Reference to rule, regulation/ order	Description
(a) Section 21 (I), Chapter III of Value Added Tax Act No 14 of 2002	Even though the reports on value added taxes should be submitted to the Department of Inland Revenue for each term of tax, action has not been taken to remit Rs. 465,750, which is recovered on the land rental for Super Brand during year 2018 and to submit tax reports to the Department of Inland Revenue.
(b) Public Enterprises Circular No PED/12 dated 02 June 2003 (I) Section 5.1.3.	Even though the copies of corporate plan approved by the Board of Directors should be sent to the Line Ministry, State Ministry, and Auditor General before 15 days from the commencement of the year, the corporate plan for 2018-2022 has been submitted for the audit on 18 September 2018 granting approval of the Board of Directors.
(II) Section 4.2.6.	Performance reports have not been prepared and submitted to the relevant institutions before 30 days from end of the quarter.
(c) Public Enterprises Circular No PED 03/2018 dated 07 December 2018- section 2.2. And 2.3.	Action has not been taken to submit the draft of the annual report and financial statements within 60 days to the Auditor General and a total of Rs. 2,160,000 has been accounted as the Bonus.

- to state that Board has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018
- to state that 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 of section 12 (h) of the National Audit Act, No. 19 of 2018