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இலங்கை கைப்பணிகள் சபை

Sri Lanka Handicrafts Board

LAKSALA

State Gift & Souvenir Boutique

2019

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ஆண்டு அறிக்கை

Annual Report

Annual Report 2019

Laksala

Sri Lanka Handicrafts Board - Laksala

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BACKGROUND OF THE INSTITUTE

Name of the Institute

Sri Lanka Handicrafts Board - Laksala

Statutory Nature

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

Head Office

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

Telephone : 011 2557132 / 011 2055501

Fax : 011 2594872

Sales Inquiries

e-mail : info@laksala.gov.lk

Web **:** *www.laksala.gov.lk*

Sales Information

Telephone : 011 25**97797**
e-mail : info@laksala.gov.lk

Audit

Auditor General's Department

Bankers

Bank of Ceylon

Peoples' Bank

Sri Lanka Handicrafts Board

LAKSALA SHOWROOMS NETWORK

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

Our Vision

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

Our Mission

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

Our Core Values

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

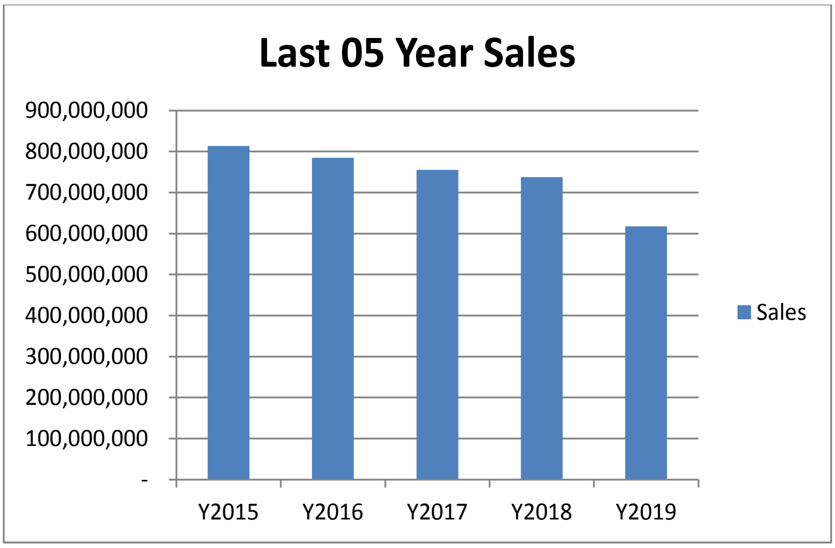
Sustainable Development Goals

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

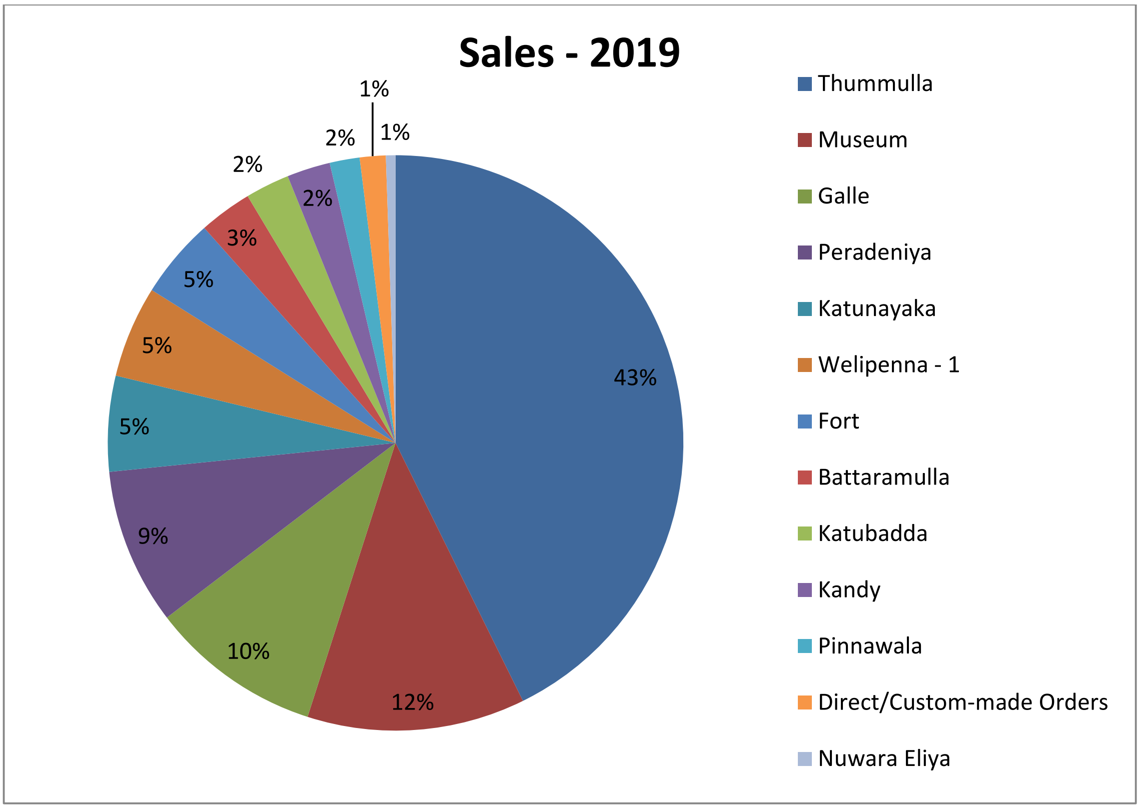
Laksala was established in 1964 with the objective of opening up international as well as domestic market opportunities and it was established under the National Crafts Council and Afiliated Institutions Act No. 35 of 1982 as Sri Lanka Handicrafts Board. At present Laksala has become the oldest and largest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

Financial Performance Summary

During the year of review 2019, Laksala has recorded a total turnover of Rs.617,296,345.00 and its cost of sales was Rs.258,401,407.00. The below graph presents the summary of total sales of Laksala for last five years.

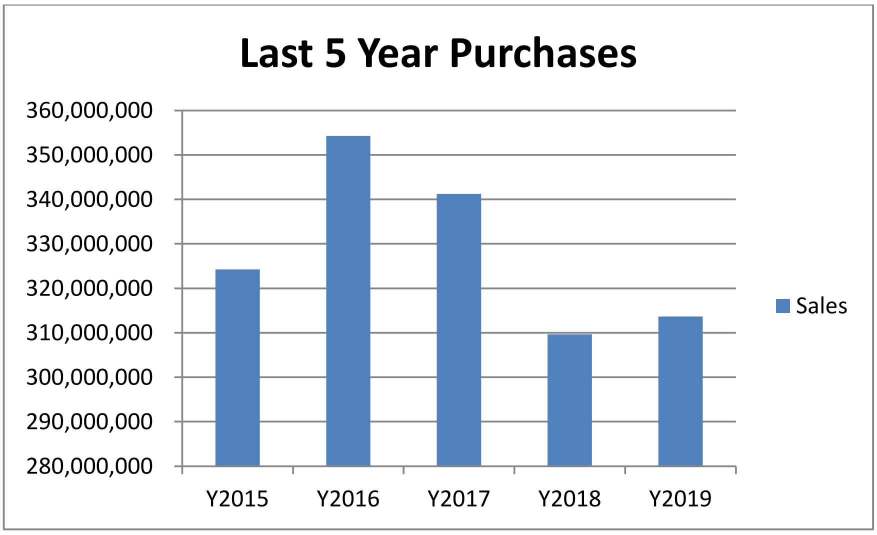


In the analysis of sales occurred during the year 2019 at Thummulla showroom secured the place of major contributor in showroom sales amounting to Rs.265,742,091.00 whilst the Museum showroom was the next main contributor of showroom sales accounting for a turnover of Rs.76,213,119.00.

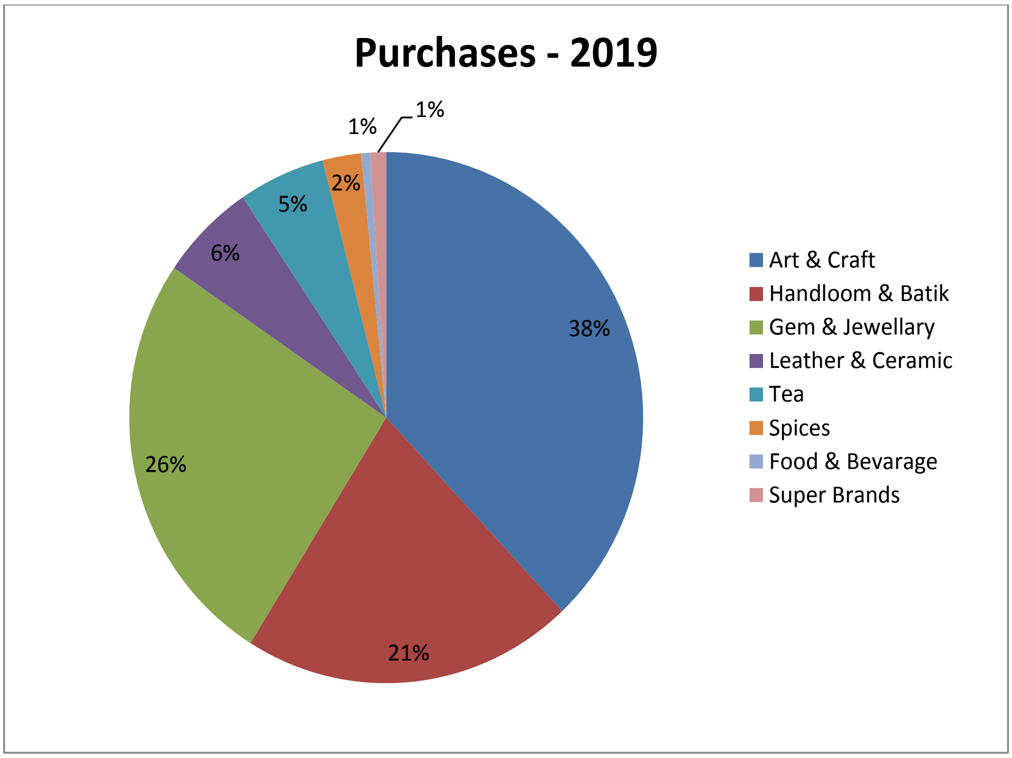


Analysis of Purchases

During the year 2019, Laksala has made trade purchases to the value amounting to Rs.313,668,623.00. The below graph shows the trade purchase trend over the past five years.



The following graph further depicts the purchases involving the year 2019 according to the classification of items. When analysing the trade purchases of 2019, a high percentage of trade purchases are represented by Art & Crafts sector.

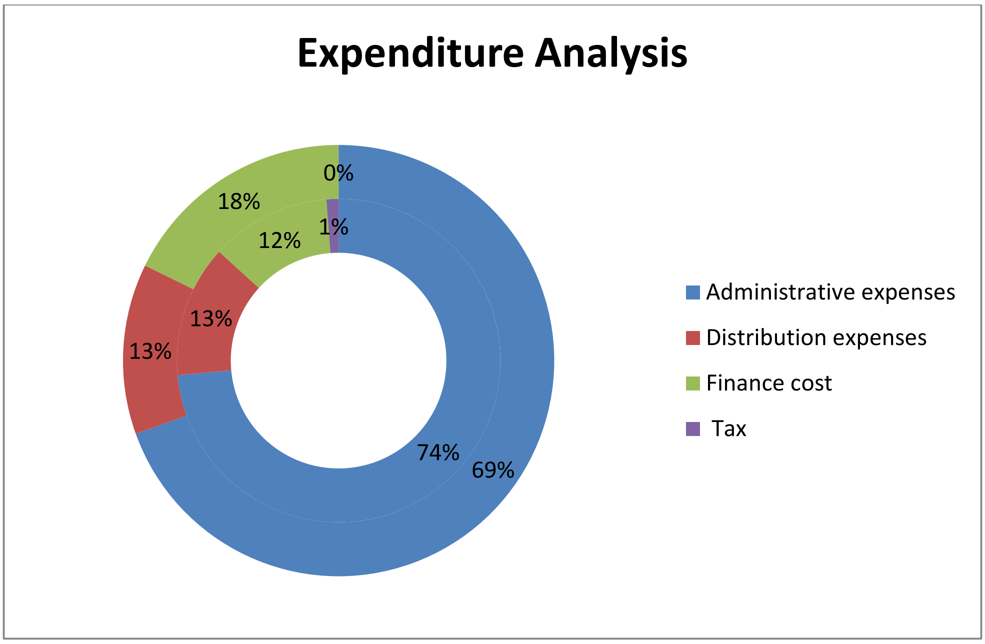


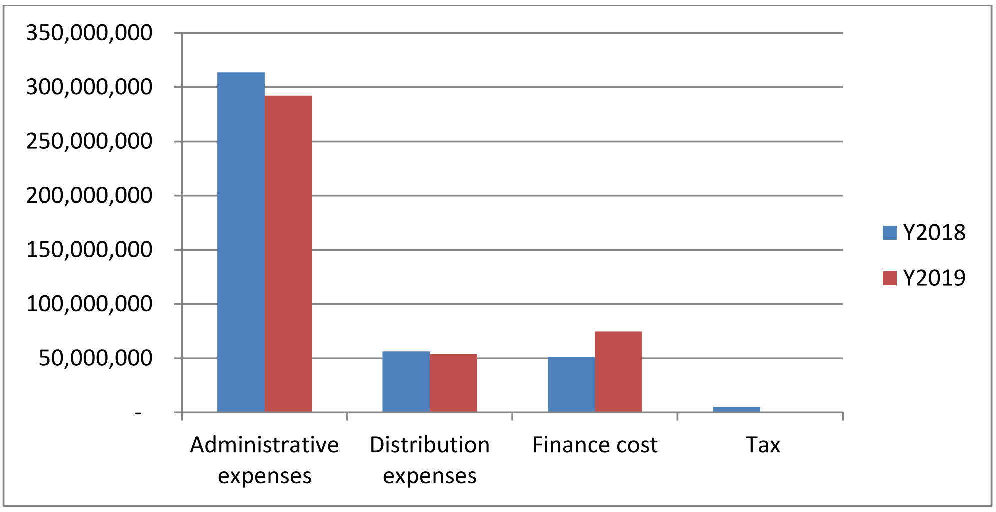
Expenditure Analysis

Since cost reduction measures were adopted in the year 2019, the total expenditure has been curtailed up to Rs.420 Million which was a 1.3% achievement when it is compared with the previous year.

Expenses	Y2018	Y2019
Administrative expenses	313,643,115	292,262,229
Distribution expenses	56,287,682	53,802,840
Finance cost	51,289,163	74,588,320
Tax	5,149,100	-
	426,369,060	***420,653,389***

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


Expenditure Analysis
0%
18%
1%
12%
13%
13%
74%
69%
Administrative expenses
Distribution expenses
Finance cost
Tax


350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
-
Administrative expenses
Distribution expenses
Finance cost
Tax
Y2018
Y2019

PERFORMANCE REVIEW -2019

Background

I am pleased to present the review of the performance of the Sri Lanka Handicrafts Board - Laksala 2012. Laksala was commenced in the year 1964 with a view to creating international market opportunities for the local craftmen and which was later established as the Sri Lanka Handicrafts board under the National Crafts Council affiliated institution Act. It has also become the state owned oldest and biggest business chain of its kind in the country.

Strategic initiatives

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

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

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

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

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

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

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

Re-defining the Category

Not only the activities of the institution, but the other tasks pertaining to the expansion of the product are carried out under the restructuring process closely aligned with the National Design Centre, the National Crafts Council by way of producing and introducing new designs in high quality to the current market requirements safeguarding the local manufacturing identity, to include the gifts and souvenirs such as Gems and Jewellery ,tea, spices, leather products, ceramics as well as local masks and the other souvenirs.

Supply Network

The supply network of this institute comprises of purchasing of gifts and souvenirs for sale, manufacturing of them, planning, quality control and supply of new designs as well. The number of 797 active craftsmen by the end of the year 2018 has further increased in the year under review. New manufactures were induced to enter into this field by way of upgrading new business opportunities.

Administration

Sri Lanka Handicrafts Board- Laksala was operated in compliance with Acts, Government Circulars and other Financial and Administrative directives issued with regard to its aggregate operations and ensured the following of good governance and procurement guidelines. Administration Division is responsible for the management of Human resources towards achieve the goals and objectives of the organization as well as to provide other supporting services. There are 129 employees during the year under review. Details are given below.

Total Strength as at 31/12/2019

Senior Level	**09**	
Secondary Level	**08**	
Tertiary Level	56	
Primary Level	**10**	**83**
Contract Staff		**46**
Total		**129**

Comparing with the previous year, Work force has been decreased from 135 to 129 In order to implement a well designed short, medium and long term business plan in the competitive business environment; build up a well trained, committed and efficient work force has become crutial. Therefore actions have been taken to improve the quality and the productivity of the sales and sales assistant employees through implementing training and development programs and introducing an attractive incentive scheme. In additions to that approval of the Department of Management Services has been sought for a new cadre.

Arrival of foreign tourists was steeply decreased due to Easter Sunday bomb attack on 21st April and as a result, expected income could not be generated as a result of falure to meet sales targets.

However, it is expected that arrival of tourists in 2020 will be back to normal thus business has been organized under new plan and strategies to further enhance marketing and sales

SRI LANKA HANDICRAFTS BOARD -LAKSALA

Board of Directors

Member's name of the Board of Directors	Designation	Date of Appointment
Mr. Sujeewa Palliyaguruge	Chairman	31/12/2020
Mrs. I.J.Abeyratne	Board Director	30/04/2019
Mr. Matarage Nayanachandra	Board Director	10/08/2018
Mr. G.D.S.P. Kumara	Board Director	29/08/2018
Mr. A.A.A. Ruwais	Board Director	18/10/2018
Mr. H.M.M.mRuwaith	Board Director	19/10/2018
Dr. M.M. Wazir	Board Director	21/03/2018
		(Date of resined)
Mr. M. Hamza	Chairman (resigned)	13/07/2018
Mr.Harsha Wijewardana	Board Director	29/04/2019

SRI LANKA HANDICRAFTS BOARD –LAKSALA

Senior Management Team

Mr. Madhura de Silva	Director General/Chief Executive Officer
Mr. C.N. Dahanayake	Director (Human Resource and Administration)
Mr. K.C.Jayawardhana	Director (Sales)
Mr. E. Allen Dellican	Acting Director (Finance)
Mr. K.P.P.S.K. Pathirana	Chief Internal Auditor
Mrs. Devika Kumari Athukorala	Deputy Director (Distribution)
Mrs. Vajira Samararathna	Deputy Director (Procurement)
Mr. Sampath Senevirathna	Assistant Director (Human resource and Administration)
Mr. Dinesh Abeykoon	Head of Branch- Information Technology
Mr. A.L.M. Rizwan	Assistant Director (Income and expenditure)

OUR GRATITUDE

Firstly, on behalf of Laksal, I would like to pay my heart felt gratitude to His Excellency the President of the Democratic Socialist Republic of Sri Lanka, Hon. Prime Minister, Hon. Minister and Deputy Minister of Industry and commercial affairs, Resettlement of long-term displaced persons, C-operative Development and Vocational Training and Skills Development I would also like to extend my gratitude to the members of the Board of Directors for taking proper decisions giving conclusions with the utmost intension of upgrading the institution to a higher place in the field.

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

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

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

Sales income was sharply fallen as the absence of tourists due to the Easter attack on 21st April this year. Therefore, expected sales targets could not be achieved but it is expected to widen the sales through specialist instructions on expansion of marketing and sales in 2020.

I would like to remind that every possible step is taken in future to further strengthen the rural economy in Sri lanka and thereby to upgrade the standard of living of the rural community by our institution and finally we are expecting to increase sales up to Rs. one billion in coming years.

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

Chairman,

Sri Lanka Handicrafts Board - Laksala

LAKSALA

State Gift & Souvenir Boutique

SRI LANKA HANDICRAFTS BOARD

FINANCIAL STATEMENTS

31 DECEMBER 2019

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 LKR	2018 LKR
Revenue	3	617,296,345	737,283,033
Cost of sales		(258,401,407)	(306,324,003)
Gross profit		**358,894,938**	**430,959,030**
Grants received		150,000,000	-
Other income	4	10,806,240	11,851,544
Administrative expenses		(292,262,229)	(313,643,115)
Distribution expenses		(53,802,840)	(56,287,682)
Results from operating activities		**173,636,109**	**72,879,777**
Finance cost	5	(74,588,320)	(51,289,163)
Profit before tax	6	**99,047,789**	**21,590,614**
Tax	7	-	(5,149,100)
Profit for the year		**99,047,789**	**16,441,514**

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 2019

	Notes	2019 LKR	2018 LKR	2017 LKR
Assets				
Non-current assets				
Property, Plant & Equipment	8	947,265,898	993,113,357	1,040,666,126
Total non-current assets		947,265,898	993,113,357	1,040,666,126
Current assets				
Inventories	9	637,430,580	463,384,277	578,948,995
Trade and other receivables	10	86,360,169	108,718,915	196,464,192
Cash and cash equivalents	11	28,929,936	24,451,300	9,470,676
Total current assets		752,720,685	596,554,492	784,883,863
Total assets		1,699,986,583	1,589,667,849	1,825,549,989
Equity and liabilities				
Equity				
Stated capital		73,628,878	73,628,878	73,628,878
Capital reserves		510,806	510,806	510,806
Revaluation reserves		454,366,157	454,366,157	454,366,157
Capital grants		103,951,172	103,951,172	103,951,172
Other components in revenue reserve	12	(123,528,974)	(178,017,763)	(38,180,995)
Retained earnings		104,814,488	5,766,701	(10,674,813)
Total equity		613,742,527	460,205,951	583,601,205
Non-current liabilities				
Retirement benefit obligations	13	50,896,038	44,191,479	38,062,261
Deferred income	14	74,844,712	100,184,713	125,524,713
Long term borrowings	15	388,650,929	164,610,344	197,828,391
Total non-current liabilities		514,391,679	308,986,536	361,415,365
Current liabilities				
Trade and other payables	16	490,309,677	524,046,871	552,865,918
Income tax payable	7	25,459,280	5,149,100	-
Short term borrowings	17	49,762,719	275,388,387	298,600,257
Bank overdrafts	18	6,320,701	15,891,004	29,067,244
Total current liabilities		571,852,377	820,475,362	880,533,419
Total liabilities		1,086,244,056	1,129,461,898	1,241,948,784
Total equity and liabilities		1,699,986,583	1,589,667,849	1,825,549,989
			-	-

....
Mr.E. A. Delikan
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 singed on their behalf on 22nd September 2020 at the Board meeting held in Laksala Thummulla.

....	....	....
Mr.S.M.Kodikara	Mrs.N.P.A.R.Jayawardhana	Mr.Sujeewa Palliyaguruge
Board Member	**Board Member**	**Chairman**

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 CHANGES IN EQUITY
For the year ended 31 December 2019

	Stated capital	Capital reserves	Revaluation reserves	Capital grants	Retained earnings	Prior years adjustment	Total equity
	LKR	LKR	LKR	LKR		LKR	LKR
Balance as at 1 January 2018	73,628,878	510,806	454,366,157	103,951,172	(10,674,814)	(38,180,995)	**583,601,204**
							-
Profit for the year	-	-	-	-	16,441,514		**16,441,514**
							-
Prior year errors op balance						(139,836,768)	**(139,836,768)**
Adjustments to prior year errors	-	-	-	-			-
							-
Balance as at 31 December 2018	**73,628,878**	**510,806**	**454,366,157**	**103,951,172**	**5,766,700**	**(178,017,763)**	**460,205,950**
							-
Profit for the year					99,047,789		**99,047,789**
							-
Adjustments to prior year errors	-	-	-			54,488,789	**54,488,788**
Grant				-			-
Balance as at 31 December 2019	**73,628,878**	**510,806**	**454,366,157**	**103,951,172**	**104,814,488**	**(123,528,974)**	**613,742,527**

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 2019

	Notes	2019	2018
Cash generated from operations		LKR	LKR
Profit before tax		**99,047,789**	**21,590,614.00**
Adjustments for:			
Assert Disposal income		(127,716)	-
VRS amortization charge		2,465,874	3,278,092.00
Retirement benefit obligations		6,964,310	6,704,212.00
Interest expenses		74,236,920	51,289,163.00
Depreciation		25,928,260	24,329,921.00
Amortization of capital expenditure costs		25,340,000	25,340,000.00
Prior Year Adjustment		(77,794,472)	(7,553,507.00)
Grants amortised		(25,340,000)	(25,340,000.00)
		130,720,965	**99,638,495.00**
Changes in working capital			
Inventories		(41,763,042)	(16,718,542.00)
Trade and other receivables		19,892,872	84,467,185.00
Trade and other payables		(11,905,275)	(28,819,050.00)
Cash generated from operations		**96,945,520**	**138,568,088.00**
VRS paid			-
Gratuity paid		(573,540)	(574,994.00)
Interest paid		(74,236,920)	(51,289,163.00)
Net cash generated from operating activities		**22,135,060**	**86,703,931.00**
Cash flows from investing activities			
Assert Disposal income		164,256	-
Purchases of property, plant & equipment		(6,665,294)	(2,117,152.00)
Net cash used in investing activities		**(6,501,038)**	**(2,117,152.00)**
Cash flows from financing activities			
Long term loans obtained		273,000,000	15,824,872.00
Loan repayments		(274,585,083)	(72,254,789.00)
Net cash used in financing activities		**(1,585,083)**	**(56,429,917.00)**
Net increase/(decrease) in cash and cash equivalents		**14,048,939**	**28,156,862.00**
Cash and cash equivalents at the beginning of the year		8,560,296	(19,596,566.00)
Cash and cash equivalents at the end of the year		**22,609,235**	**8,560,296.00**
Bank overdrafts	18	(6,320,701)	(15,891,004.00)
Cash in hand and at bank	11	28,929,936	24,451,300.00
		22,609,235	**8,560,296.00**

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 embodies 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 164 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 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 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	2019	2018
	LKR	LKR
Showroom sales		
Thummulla	265,742,091	314,092,034
Museum	76,213,119	93,089,687
Galle	60,187,419	67,105,575
Peradeniya	54,632,521	62,476,801
Katunayaka	33,397,236	42,980,562
Fort	28,098,047	27,723,597
Welipenna - 1	32,087,176	26,942,621
Battaramulla	18,543,344	21,321,945
Kandy	15,160,845	20,912,924
Katubadda	15,415,364	16,061,827
Pinnawala	10,473,120	14,247,433
Super brand	-	11,993,455
Race course	-	3,859,365
Nuwara Eliya	3,341,825	847,604
Total showroom sales	613,292,107	723,655,430
Direct/custom made orders	9,066,676	17,855,513
	622,358,783	**741,510,943**
Nation building tax (NBT)	(5,062,438)	(4,227,910)
	617,296,345	**737,283,033**

4. Other income	2019	2018
Rental income	10,727,613	11,786,674
Interest on saving account	78,627	50,318
Circuit bungalow reservation	-	2,500
Foreign exchange gain	-	12,052
	10,806,240	**11,851,544**

5. Finance costs	2019	2018
Bank charges	345,488	378,449
Overdraft interest	5,912	95,374
Loan interest	74,236,920	50,815,340
	74,588,320	**51,289,163**

6. Profit before tax

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

	2019	2018
	LKR	LKR
Directors fees and board meeting expenses	1,301,166	1,273,960
Audit fees	1,567,992	1,568,720
Non-audit services- others		-
Depreciation on property, plant & equipment	25,928,260	24,329,922
Staff costs-		
Defined contribution plan costs	10,277,712	9,818,356
Defined benefit plan costs	6,964,310	6,704,212
Salaries and allowance	119,426,444	115,989,192
Staff training and development costs	279,589	201,500
Legal fees	891,040	1,328,213
Operating lease rentals	36,212,970	44,555,559
Sponsorships and donations	-	268,778

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 eventhough there is a profit in the finacial year a tax provision was not accounted taking into consideration the profit which was generated from the recurrent grant received from the general treasury in the year 2019. This was accounted under other income.

8. Property, plant and equipment

	Notes	2019	2018
		LKR	LKR
Freehold assets	8.1	723,573,689	746,074,569
Building development costs	8.2	223,692,208	247,038,787
		947,265,898	**993,113,356**

8.1 Freehold assets

	Land	Buildings	Plant & machinery	Furniture fittings & office equipment	Computer equipment	Articles	Capital work in progress	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cost or valuation								
Balance at 1 January 2018	395,520,000	248,787,761	100,567,471	58,975,366	30,624,103	30,511,175	45,451,390	**910,437,266**
Additions	517,214	10,000	34,250	694,808	262,305	598,575	-	**2,117,152**
Disposals								**-**
Balance at 31 December 2018	**396,037,214**	**248,797,761**	**100,601,721**	**59,670,174**	**30,886,408**	**31,109,750**	**45,451,390**	**912,554,418**
Disposal			(104,399)					**(104,399)**
Additions	-	-	299,439	488,054	2,450,757	1,433,624	-	**4,671,874**
Balance at 31 December 2019	**396,037,214**	**248,797,761**	**100,796,761**	**60,158,228**	**33,337,165**	**32,543,374**	**45,451,390**	**917,121,893**
TB & Ppe Veriance	-	-	-	(1)	(1)	(0)	-	
Depreciation								
Balance at 1 January 2018	-	27,645,115	43,068,106	28,573,456	29,163,101	13,700,149	-	**142,149,926**
Charge for the year	-	4,995,282	10,058,905	5,905,043	309,602	3,061,090		**24,329,923**
Balance at 31 December 2018		32,640,397	53,127,011	34,478,499	29,472,703	16,761,239		**166,479,849**
Adjustments 2018		1,207,954						**1,207,954**
Disposal			(67,859)					**(67,859)**
Charge for the year	-	6,203,277	10,066,673	5,992,428	501,649	3,164,231		**25,928,260**
Balance at 31 December 2019	**-**	**40,051,628**	**63,125,825**	**40,470,927**	**29,974,352**	**19,925,470**	**-**	**193,548,204**
Carrying amounts								
At 31 December 2018	396,037,214	216,157,364	47,474,710	25,191,675	1,413,705	14,348,511	45,451,390	746,074,569
At 31 December 2019	**396,037,214**	**208,746,133**	**37,670,936**	**19,687,301**	**3,362,813**	**12,617,903**	**45,451,390**	**723,573,689**

8.2 Building development costs

	2019	2018
Cost or deemed cost	LKR	LKR
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	**137,413,843**	**112,073,843**
Charge for the year	25,340,002	25,340,000
Balance at 31 December	**162,753,845**	**137,413,843**
Carrying amounts		
At 1 January	247,038,787	272,378,787
additional 2019	1,993,423	
At 31 December	**223,692,208**	**247,038,787**

8.2 Building development costs (contd.)

Amortisation

Site	Year	Cost incurred	Rate	Cumulative amortisation balance at 01 January 2019	Amortised during 2019	Cumulative amortisation balance at 31 Dec 2019	Carrying amounts of building development cost at 31 Dec 2019
Museum	2013	172,847,765					
Museum	2014	1,881,295					
Museum	2015	389,177					
Total		**175,118,237**	6%	53,747,769	10,101,214	63,848,983	111,269,254
Battaramulla	2013	117,704,905					
Battaramulla	2014	7,119,771					
Battaramulla	2015	9,744,207					
Total		**134,568,883**	6%	40,074,048	7,762,237	47,836,285	86,732,598
Pinnawala	2013	10,086,000	10%	6,051,600	1,008,600	7,060,200	3,025,800
Wagolla	2014	810,487	10%	405,242	81,049	486,291	324,196
Peradeniya	2013	31,657,966					
Peradeniya	2014	8,968,353					
Peradeniya	2015	677,220					
Total		**41,303,539**	10%	23,749,844	4,130,354	27,880,198	13,423,341
Welipanna	2013	10,269,019	10%	6,161,413	1,026,902	7,188,315	3,080,704
Race course	2013	1,113,613	10%	668,165	111,361	779,526	334,087
Katunayake	2013	1,060,000	10%	636,000	106,000	742,000	318,000
Unawatuna	2013	1,000,000	10%	600,000	100,000	700,000	300,000
K-Zone	2013	8,353,071	10%	5,011,841	835,306	5,847,147	2,505,924
Thunmulla		769,781	10%	307,921	76,977	384,898	384,883
kandy	2019	1,993,423	10%	-	-	-	1,993,423
Grand total		**386,446,053**		**137,413,843**	**25,340,000**	**162,753,843**	**223,692,210**

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

9. Inventories	**Notes**	**2019 LKR**	**2018 LKR**
Showroom trading first quality finished goods		491,902,352	443,175,876
Second quality finished goods		143,672,118	14,810,411
Raw materials and work in progress	**9.1**	1,856,110	5,397,990
		637,430,580	**463,384,277**

9.1 Raw materials and work in progress

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

10. Trade and other receivables	**Notes**	**2019 LKR**	**2018 LKR**
Trade receivables	**10.0**	15,849,569	38,689,773
Other receivables	**10.1**	20,086,262	6,367,938
Deposits and prepayments	**10.2**	50,424,338	38,000,723
Receivable from related companies	**10.3**	-	25,660,481
		86,360,169	**108,718,915**
10. Trade receivables			
Trade Debtors		13,019,327	11,030,486
Receivable Credit Card		2,830,242	27,659,287
		15,849,569	**38,689,773**
10.1 Other receivables			
Staff loans		116,250	113,750
Rent receivable		10,921,900	315,000
ESC receivable		9,049,198	5,939,188
VAT receivable		-	-
Other Receivable		(1,086)	-
Receivables from voucher sales		-	-
		20,086,262	**6,367,938**
10.2 Deposits and prepayments			
Security deposits		1,925,446	1,849,424
Prepayments		5,706,303	8,993,600
Advances paid		22,511,554	11,932,359
Damage stocks control account		-	-
Retention money		12,502,564	500,000
Refundable deposit		7,881,157	14,715,340
Widower orphanage pension scheme		77,993	-
Guarantee receivables		(180,679)	10,000
		50,424,338	**38,000,723**
10.3 Receivable from related companies			
Amount due from project		-	-
Amount due from Ape Gama		-	25,660,481
		-	**25,660,481**

	2019	2018
	LKR	LKR
11. Cash and cash equivalents		
Cash at bank	26,888,268	22,832,694
Cash in hand	2,041,668	1,618,606
	28,929,936	**24,451,300**
12. Other components in revenue reserve		
Opening balance	178,017,763	38,180,995
Salary arrears	-	-
Previous year revision	(54,488,789)	139,836,768
	123,528,974	**178,017,763**

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

	2019	2018
	LKR	LKR
13. Retirement benefit obligations		
Opening balance	44,191,479	38,062,261
Gratuity provision for the year	7,278,099	6,704,212
Gratuity paid during the year	(573,540)	(574,994)
Closing balance	**50,896,038**	**44,191,479**

The liability for retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 128 employees of the organization.

14. Deferred income

Description of the grant	Year	Amortisation rate	Original grant received	Unamortised balance as at 31 December 2018	Amortised amount during 2019	Unamortised balance as at 31 December 2019
Economic Development	**2012**	10%	100,000,000	30,000,000	10,000,000	20,000,000
Ministry of Trade and Commerce	**2013**	10%	36,000,000	14,400,000	3,600,000	10,800,000
Budget allocation	**2013**	10%	10,224,643	4,089,857	1,022,464	3,067,393
Budget allocation	**2013**	10%	42,109,637	21,054,818	4,210,964	16,843,854
Budget allocation	**2013**	10%	11,099,920	4,439,968	1,109,992	3,329,976
Budget allocation	**2013**	10%	7,828,426	3,131,373	782,843	2,348,530
Economic Development	**2014**	10%	35,000,000	17,500,000	3,500,000	14,000,000
Budget allocation	**2014**	10%	11,137,374	5,568,697	1,113,737	4,454,960
Total			**253,400,000**	**100,184,713**	**25,340,000**	**74,844,713**

	Notes	2019 LKR	2018 LKR
15. Long term borrowings			
Opening balance		303,929,372	364,484,161
Loan obtained during the year		273,000,000	11,700,000
Loan paid during the year		(145,202,443)	(72,254,789)
Closing balance		431,726,929	303,929,372
(Less) Payable within one year	17	(43,076,000)	(139,319,028)
Long term loan obligations		**388,650,929**	**164,610,344**

15.1 Bank of Ceylon – Loan Balance Rs.272 Mn as at end 2018
Initially loans were taken within the periods of 2012 to 2018 for 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 2018 to Rs.303.9Mn.

15.2 During the financial year 2019 the company faced a setback after the 1st quarter due to the Easter Sunday attacks. Therefore the existing loans were re-structured to balance the then situation. Loan balances of 8 long term loans along with the short term revolving loans were cancelled & the balance loan capital of Rs 273 Mn was issued as fresh loans in the year 2019.
Re-structured loans to be paid for Rs.273 Mn in 2019 have been given in 3 loans as follows:
Facility 1 – Term Loan Rs.40,000,000/=
Facility 2 – Term Loan Rs.200,000,000/=
Facility 3 – Term Loan Rs.33,000,000/=

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.

15.4 Treasury Loan – Rs.15 Mn

A facility was provided by the General Treasury with a 0% interest plan to pay outstanding supplier balances. This loan facilty was fully settled by the 2nd quarter of 2019.

SRI LANKA HANDICRAFTS BOARD
NOTES TO THE FINANCIAL STATEMENTS

	Notes	2019 LKR	2018 LKR
16. Trade and other payables			
Trade payables		338,046,682	392,544,616
Other payables		104,787,627	101,510,827
Accrued expenses		47,475,368	29,991,428
		490,309,677	**524,046,871**
17. Short term borrowings			
Current portion of the long term loan obligations		43,076,000	139,319,028
Short term loan		6,686,719	136,069,359
		49,762,719	**275,388,387**
18. Bank overdrafts			
Bank overdrafts		**6,320,701**	**15,891,004**

The bank overdraft amounting to Rs.6,320,701 (2018: Rs.15,891,004) 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 facilty of Rs.15 Mn.

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 contact 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.

NATIONAL AUDIT OFFICE

My Ref: TCM/A/SLHB/153/2019/FA Date …… January, 2021

The Chairman,

Sri Lanka Handicrafts Board

Auditor General's Report in terms of the Section 12 of the National Audit Act No. 19 of 2018 regarding the Financial Statements for the Year Ended 31/12/2019 and other Legal and Monitoring Requirements of Sri Lanka Handicrafts Board

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 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 , the Finance Act, No. 38 of 1971, and Section 64(3) of the National Crafts Council And Allied Institutions Act, No. 35 of 1982. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph under Basis for Adverse Opinion of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka Handicrafts Board as at 31 December 2019 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Adverse Opinion

a) According to the Financial Statement (Note 9) as at 31/12/2019 value of the stock was Rs. 637,430,580.00. The Physical stock as at the same date produced for the audit was valued at Rs. 514,227,827.00. Thus excess value of the stock as per the Financial Statements was Rs. 123,202,753.00.

b) Although the cumulative value connected with 4 fixed asset items of the Board according to the Financial Statements as at 31 December 2019 was Rs.226,835,528, the cumulative value according to the Asset Schedule was Rs. 99,793,054. Accordingly, a total difference of Rs. 123,202,753 was observed.

c) An amount of Rs.36,241,797 was recorded in financial statements as the total of Indirect Creditors as at 31 December 2019 according to the schedule presented to the audit by the Board, however, such balance amount contained a debit balance of other creditors amounted to Rs. 3,616,379 thereby financial statements recorded Actual Creditors less by Rs 3,616,379.

d) According to the bank statement as at 31 December 2019, The overdraft balance of a bank current account of the Board was Rs. 233,662. Since the balance of the current account of which transactions are made by means of Dollars is erroneously converted into Rupees the financial statements have recorded the year end value Rs. 237,897 less.

e) According to the financial statements the balance of the loan obtained by the Board from Rural Development Bank as at 31 December 2019 was Rs. 158,726,932. However, a difference of Rs. 3,382,467 was observed as the loan balance according to the Letter of Confirmation of balance issued by the same bank was Rs. 162,109,399.

f) Although cumulative sales on credit cards in 9 showrooms in August was Rs. 21,584,455, according to the Merchant Detail Transaction Report issued by the bank , total sales amount was Rs. 20,150,754 and thereby observed a difference of Rs. 1,4333,701.

g) According to the outstanding Tax Report presented by the Department of Inland Revenue, balance of the Nation Building Tax (NBT) payable by the Board as at 31 December 2019 was Rs. 26,498,593. Financial statements of the Board as at the same date have recorded such balance amounted to Rs. 11,602,282 and thereby the financial statements stated the payable tax amount less by Rs. 14,896,311.

h) According to the outstanding Tax Report presented by the Department of Inland Revenue, balance of the Value Added Tax (VAT) payable by the Board as at 31 December 2019 was Rs. 3,858,970. Financial statements of the Board as at the same date have recorded such balance as Rs. 2,108,828 and thereby the financial statements stated the amount of Value Added Tax payable less by Rs. 1,750,142.

i) According to the outstanding Tax Report presented by the Department of Inland Revenue, Income Tax payable by the Board as at 31 December 2019 was Rs. 20,811,536. Financial statements of the Board as at the same date have recorded such balance as Rs. 25,459,280 and thereby the financial statements stated the payable tax amount Rs. 4,647,744 in excess.

j) Total amount retained under pre-payment in the year under review as per the financial statements of the Board was Rs. 12,502,564. Financial statements have been prepared without settling such balances carried forward from 2011 and 2015. No evidence has been provided to the audit.

k) When checking the Credit Card Receivable Account of the Board as at 31 December, 2019 the said ledger account was credited and the previous year Adjustment Account was debited by the amount of Rs. 26,151,430 using journal entries. No sufficient documentary evidence was produced to the audit in support of clarifying the method of calculating such amount in order to check the accuracy of making these journal entries in the ledger accounts.

l) According to the financial statements as at 31 December 2019, amount of the unsettled advances of the Board was Rs. 22,511,554. Neither Schedule of advances nor evidence was produced to the audit in order to verify the accuracy of the amount of advances.

m) Total of Trade Debtors balances of the Board as at 31 December 2019 was Rs. 22,597,699 and out of such balance, an amount of Rs. 9,578,372 was made for Reserving for Doubtful Debtors and the amount of net debtors stated in the financial statements was Rs. 13,019,327. No evidence was produced to the audit to verify the accuracy of net debtors balance. Moreover, although a total amount of Rs. 9,578,372 has been reserved as the doubtful debtors, no disclose was made in the financial statements about the Accounting Policy in that regard.

n) An old balance carried forward since 2011 amounted to Rs. 1,133,557 was included in the amount of Rs. 10,921,900 recorded under Rent Receivable in the financial statements as at 31 December 2019. There was no evidence with the Board to verify the accuracy of such balance.

o) An amount of Rs. 47,475,368 was recorded under Expenses Accrued in the financial statements as at 31 December 2019. An amount of Rs. 6,792,561 has been stated under Expenses Accrued also in the previous year in the schedule presented to the audit with regard to the same total amount and accuracy could not be verified due to absence of documentary evidence in support of availability of such amount.

p) When adjusting accounting errors retrospectively according to SLAS 08, such errors should be adjusted against the opening balance of the Retained Earnings Account in terms of paragraph 110 of the Accounting Standard regarding the presentation of financial statements ,.However, when preparing the Statement of Changes in Equity of the Board as at 31 December 2019, adjustments were made in a separate column without adjusting the errors in previous year amounted to Rs. 54,488,789 against the opening balance of the Retained Earning Account.

q) Two computer programmes namely, SAP and POS are used for the accounting purpose of the Board. A large number of automatic journal entries are recorded in the accounts daily to exchange data between these two systems. Transactions are accounted in daily cash book by means of journal entries without any human involvement. According to sample checks, in the months of November and December Total of Debit side of the Cash Book was Rs. 8,115,546 and the total of Credit side was Rs. 42,776,136. Accuracy of such balances could not be verified due to absence of journal vouchers and other documentary evidence.

I conduct the audit in conformity with the Sri Lanka Audit Standards (SLAuS). My responsibilities under these Standards further described in the paragraph under

'The Auditor's Responsibility Regarding the Financial Statements' in this report. I believe that the audit evidence obtained by me in order to provide a basis for my opinion is sufficient and appropriate.

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 intends 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.

In terms of Sub-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 Responsibilities of the Auditor with regard to the Financial Statements

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

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

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

Material audit findings identified in my audit was informed to the parties who control main internal control weaknesses and other matters.

2. **Report on Legal and Other Monitoring Requirements**

Special provisions with regard to the following requirements are included in the National Audit Act No. 19 of 2018.

- According to the requirement stipulated in the Section 12 (a) of the National Audit Act No. 19 of 2018, except the affect arisen from the matters described in the paragraph under 'Basis for the adverse Opinion' in my report, I obtained all the information and clarifications required for the audit and my investigation shows that proper financial reports has not been maintained by the Board.

- According to the requirement stipulated in Section 6 (I) D (III) of the National Audit Act No 19 of 2018, the Financial Statements presented by the Board are consistent with the previous year statements.
- According to the requirement stipulated in Section 6 (I) D (IV) of the National Audit Act No. 19 of 2018, my recommendations have been made in the previous years are included in the presented Financial Statement except the observations in paragraph 1.2 a, g, h, i, k, l, o and q.

Anything was not subject to my attention as to make the following statements based on the actions followed and evidence obtained as well as in the limitation of material facts.

- That any member of the Board of Management of the Board has any interest on any agreement connected with the Board directly or otherwise outside the normal business status according to the requirement stipulated in the Section 12 (g) of the National Audit Act No. 19 of 2018,
- Resources of the Board has not been utilized in a thrifty, efficient and effective way and having procured within the prescribed time frame and laws and regulations in terms of the Section 12(h) of the National Audit Act No. 19 of 2018.

Reference to Rules and Regulations/ Order

Public Enterprises Circular No. PED 12 dated 02 July 2003	
(i) Sections 9.3.1 (vi) and (vii)	According to these sections, even though acting appointments should be given for the duration of maximum three month's period, such appointments for 5 key positions have been given for a period from 2015, 2018 to November 2020.
(ii) Sections 9.14.1 and 9.14.2	In terms of this circular, neither procedural rules were compiled nor was the approval sought from the Secretary to the Treasury.

- According to the requirements stipulated in Section 12 (g) of National Audit Act No.19 of 2018, actions have been done inconformity with the authority, duties and functions of the Board.
- According to the requirements stipulated in Section 12(h) of the National Audit Act No. 19 of 2018, • Resources of the Board has not been utilized in a thrifty, efficient and effective way and having procured within the prescribed time frame and laws and regulations

3. **Other Audit Observations**

(a) Expiry of the period of Contract Service of the position of Chief Executive Officer/ Director General of the Board and retirement of Chief Internal Auditor has created vacancies in those positions from February 2020. Such vacancies have not been filled by November 2020; i.e up to the audit was concluded, resulting the Internal Audit Section kept idle. Excessive delay in main operational activities and taking decisions of the Board have caused adversely for the +of the Board.

(b) A computer software called SAP is used for accounting and inventory control in the Board while software called POS is used for daily sales. Although this software is used since a long time, its service agreement has not been updated with the parent company. New versions and upgrades have been missed due to failure to update the agreements. Although back-ups are kept with the Institute, the data was at a high risk as failure of reinstallation of such back-ups in to the system.

W.P.C. Wickremarathna

Auditor General