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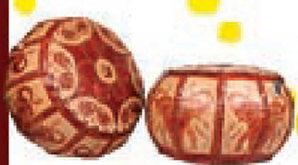
# Sri Lanka Handicrafts Board



# 2020

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ஆண்டு அறிக்கை

Annual Report

LAKSALA

STATE GIFT & SOUVENIR BOUTIQUE

# *Annual Report 2020*

# *Sri Lanka Handicrafts Board - Laksala*

# CONTENTS



# FINANCIAL STATEMENTS

# 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 2597797
e-mail : info@laksala.gov.lk

## Audit

Auditor General's Department

## Bankers

Bank of Ceylon

Peoples' Bank

# LAKSALA SHOWROOMS NETWORK

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

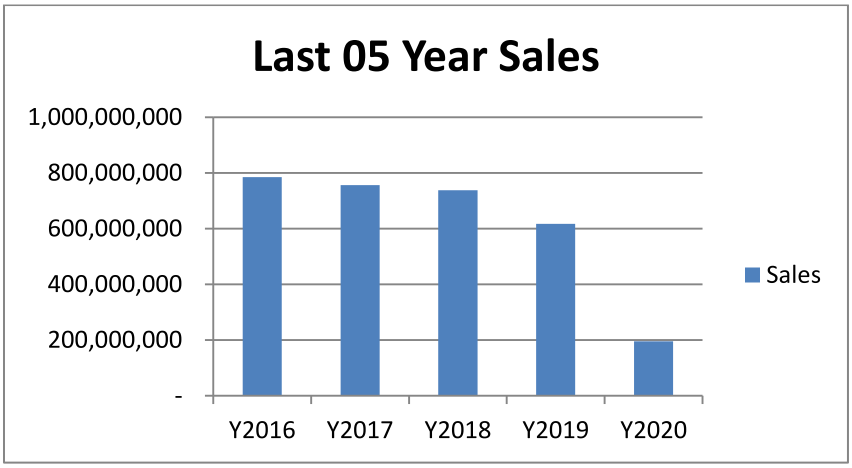
# Sustainable Development Goals

- 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

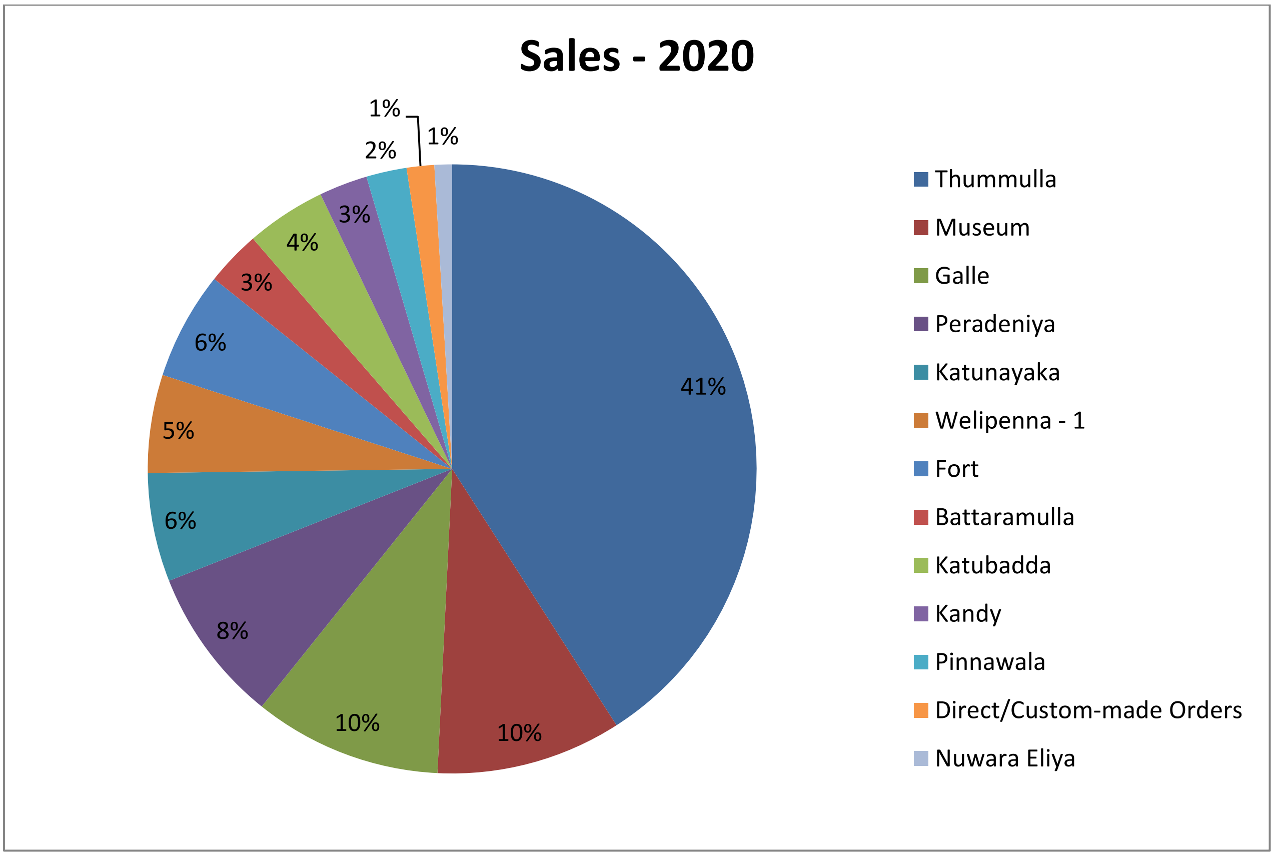

Laksala was established in 1964 with the objective of opening up international as well as domestic market opportunities and it was established under the National Crafts Council and Afiliated Institutions Act No. 35 of 1982 as Sri Lanka Handicrafts Board. At present Laksala has become the oldest and largest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

**Financial Performance Summary**

During the year of review 2020, Laksala has recorded a total turnover of Rs.194,740,004.00 and its cost of sales was Rs.85,307,833.00. The below graph presents the summary of total sales of Laksala for last five years.

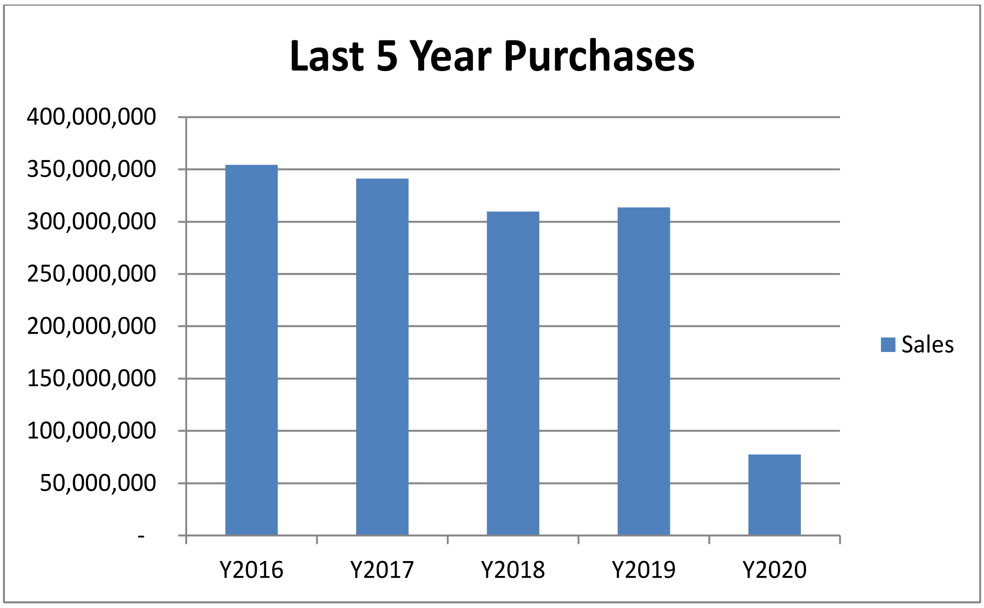



In the analysis of sales occurred during the year 2020 at Thummulla showroom secured the place of major contributor in showroom sales amounting to Rs.79,691,725.00 whilst the Galle showroom was the next main contributor of showroom sales accounting for a turnover of Rs.19,452,867.00.

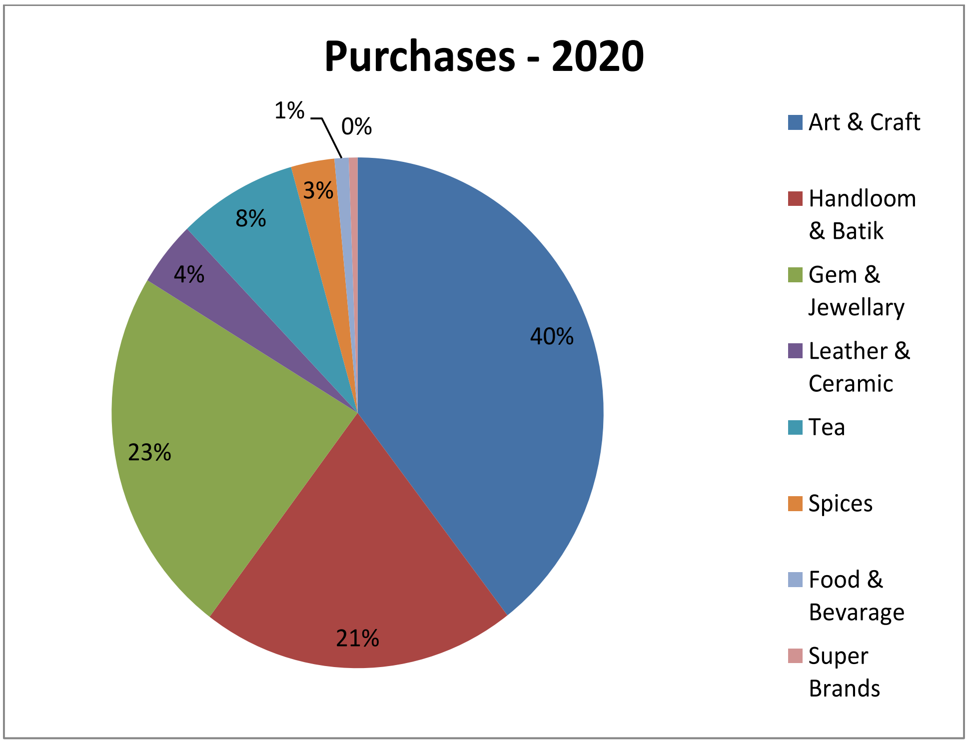


**Analysis of Purchases**

During the year 2020, Laksala has made trade purchases to the value amounting to Rs.77,428,649.00. The below graph shows the trade purchase trend over the past five years.




The following graph further depicts the purchases involving the year 2020 according to the classification of items. When analysing the trade purchases of 2020, a high percentage of trade purchases are represented by Art & Crafts sector.

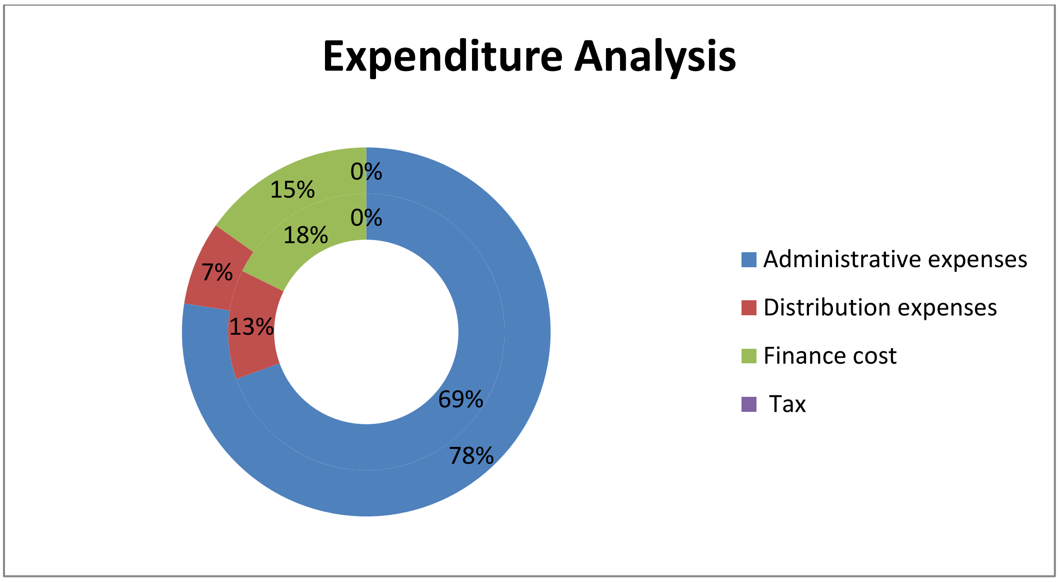


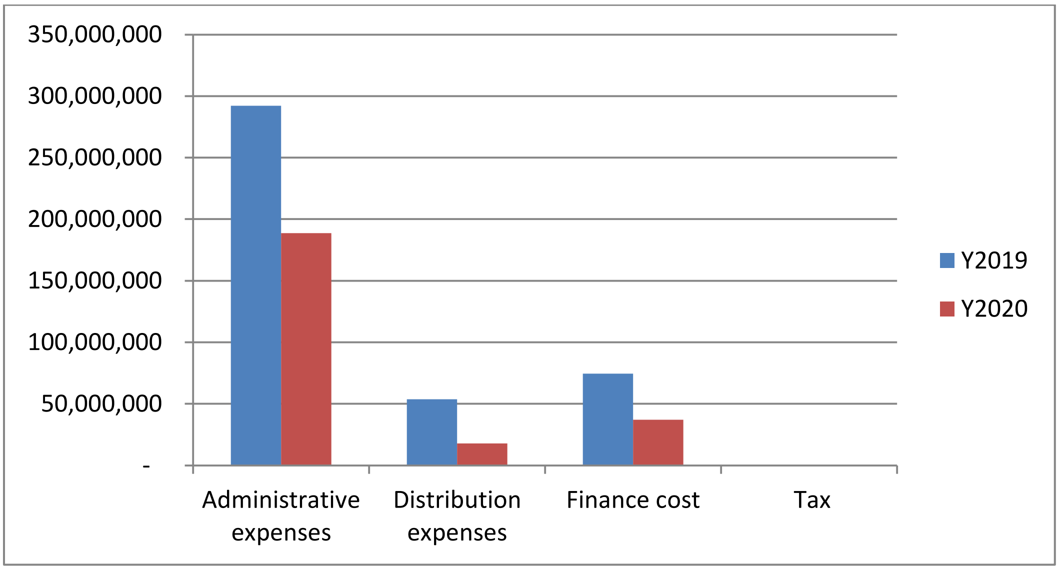
## Expenditure Analysis

Due to the lockdown imposed in the Island in the result of Covid-19 pandemics situation during the year 2020, the total expenditure has been curtailed up to Rs.243 Million which was a 42% drop when it is compared with the previous year.

| Expenses | Y2019 | Y2020 |
|---|---|---|
| Administrative expenses | 292,262,229 | 188,621,582 |
| Distribution expenses | 53,802,840 | 17,834,739 |
| Finance cost | 74,588,320 | 37,004,985 |
| Tax | - | - |
| | ***420,653,389*** | ***243,461,306*** |

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



# Performance Review - Year 2020

## Background

I am pleased to present the Performance Review of the Year 2020 of the Sri Lanka Handicrafts Board – Laksala. The Laksala was inaugurated in the year 1964 with the objective of creating local and foreign market opportunities for local handicraftsmen and was established as the Sri Lanka Handicrafts Board under the National Crafts Council and Allied Institutions Act, No. 35 of 1982. Laksala now has become the oldest and largest state-owned retail chain in this sector.

## Strategic Approach,

Through the commenced restructured programs, the turnover and profitability as well as the consumer attraction that is essential for the sustainable existence have been developed, and the procedures made for taking necessary action to meet the requirements and demand have been further strengthened. *i.e.,*

- Acquiring of a new market having expanded its marketing product categories (Category Expansion).
- Establishment of the institution's name in the market through Branding.
- Development of positive attitudes and skills in the staff as required for hospitable customer service.
- Further development of online sales facilities of Laksala products.
- Liaising with organizations such as the Sri Lanka Tourism Development Authority and the Sri Lanka Tourism Promotion Bureau and private travel agencies to organize foreign tourist attractions for Laksala showrooms.

All the product ranges that are sold in Laksala showrooms under the Laksala brand name will be further expanded, and necessary arrangements to make these products easily available to local and foreign consumers as quality and high standard gifts and souvenirs will be further expanded. Accordingly, while displaying an array of high-quality products with innovative designs for marketing, necessary steps were taken to expand the required marketing activities to remain Laksala in the hearts of local and foreign customers as the sole state-owned commercial institution in the marketing of gift and souvenir items in Sri Lanka.

## Establishing of the name of the company in the market through branding

The Laksala has upgraded its showrooms to a very high level to suit the current market. Accordingly, steps were taken to achieve the expected sales targets through the renovation of Laksala showrooms and upgrading those to a very high level to attract local and foreign customers as well as through high level display and branding having introduced new products under Laksala brand.

## **Building of positive attitudes in the staff as required for a hospitable customer service**

With the efforts to maintain a staff who can serve appropriately with the new market trends having identified customer requirements for providing them a hospitable service, and with the proper training and motivation towards the said effort, steps were taken to maintain their efficiency at a higher level. Accordingly, developing their enthusiasm by awarding salaries and incentives based on their efficiency and productivity has greatly assisted in achieving core objectives of the institution.

### Expansion of product items

Under the new strategic plan, necessary steps were taken in collaboration with the National Design Center, the National Crafts Council and other relevant government agencies to expand not only the functions of the company but also its product segments. Innovative designs have been developed and introduced with a high standard to meet the needs of the current market while preserving the identity of local products, and these gift and souvenir categories include gems and jewelry, tea, spices, leather goods, crockery as well as traditional masks and other souvenirs and the Laksala Innovation Division also launched a number of innovations in the field of gifts and souvenirs through the introduction of new handicrafts.

### Supply Network

The Laksala supply chain includes the purchasing of gifts and souvenirs for sale in showrooms, as well as the designing, quality control, and providing of modern designs for the production of those items. The total number of local artisans had continued to grow this year, which was a total number of around 505 active suppliers by the end of the year 2020, and had been expanded opportunities for new manufacturers to enter this field through the development of new market opportunities.

### Administration

The overall operations of the Sri Lanka Handicrafts Board – Laksala were implemented in conformity with the relevant regulations, Government Circulars, and other financial and administrative instructions, and also affirmed compliance with the guidelines on good governance and procurement. The Administration and Human Resources Division played a significant role in achieving the goals and objectives of the organization as well as providing other support services. The staff consisted with 123 persons in the relevant year under review, and its details are given below.

**Total staff as on 31/12/2020**

| | | |
|---|---|---|
| Senior Level | 08 | |
| Secondary Level | 08 | |
| Tertiary Level | 56 | |
| Primary Level | 09 | 81 |
| | | |
| Contractual Staff | 42 | |
| Total | 123 | |

When compare with the previous year, during the year under review the staff has been significantly reduced from 129 to 123. In the effort for implementing the well-designed short-term, medium-term and long-term business plans within a competitive marketing environment, building of a well-trained efficient staff plays a significant role.

Steps were taken to develop quality and efficiency of employees by introducing an attractive incentive scheme for the sales staff and the supportive staff and through the implementation of training and development programs for them. In addition, it has been requested to get approval for a new cadre for the monitoring activities of the institution with the approval of the Department of Management Services.

Foreign tourist arrivals to the country and local customers were significantly declined due to the COVID -19 pandemic that was arisen from the beginning of the year 2020 and due to the imposed travel restrictions, and owing to that reason, the expected sales revenue could not be generated as the anticipated plans could not be achieved.

However, as foreign tourist arrivals are expected to return to a normal situation in 2021, it has been planned to carry out business activities by implementing all the strategies needed to further increase marketing and sales.

# Sri Lanka Handicrafts Board -Laksala

# Board of Directors

| No | Name of the Board Director | Period of Appointment | |
|---|---|---|---|
| | | From | To |
| 01 | Mr. G.D.S.P Kumara | 29.08.2018 | 24.01.2020 |
| 02 | Dr. M.H.M Wasir | 10.08.2018 | 03.01.2020 |
| 03 | Mr. M. Nayanachandra | 10.08.2018 | 03.01.2020 |
| 04 | Mr. A.A.A Ruwaiz | 18.10.2018 | 03.01.2020 |
| 05 | Mr. H.M. Mohamed Ruwaith | 19.10.2018 | 03.01.2020 |
| 06 | Mrs. I.J. Abeyrathna | 30.04.2019 | 09.10.2020 |
| 07 | Mr. Sujeewa S. Palliyaguruge * | 31.12.2019 | 30.09.2020 |
| 08 | Mr. G.P.S.S Weerasooriya | 03.01.2020 | 30.09.2020 |
| 09 | Mr. Sajith M. Kodikara | 03.01.2020 | 02.05.2023 |
| 10 | Ms. Madumali Alwis (Attorney-at-Law) | 03.01.2020 | 02.05.2023 |
| 11 | Mr. K.L. Mahinda Samarathunga | 03.01.2020 | 09.01.2023 |
| 12 | Mrs. N.P.A.R Jayawardena | 24.01.2020 | 02.03.2022 |
| 13 | Mrs. J. Krishnamoorthy | 24.01.2020 | 09.10.2020 |
| 14 | Mr. D. Jeewanadhan | 09.10.2020 | Present |
| 15 | Mr. Pradeep Gunawardhana * | 12.10.2020 | 07.05.2021 |
| 16 | Mr. Lakmal Wickramaarachchi * (Attorney-at-Law) | 11.11.2020 | 23.12.2022 |

* Appointed as a Member to the Board of Directors and the Chairman of the Sri Lanka Handicrafts Board (LAKSALA).

# Sri Lanka Handicrafts Board- Laksala

## Senior Management Team

| | |
|---|---|
| Mr. Madura De Silva | Director General/Chief Executive |
| Mr. C.N. Dahanayake | Director (Human Resources and Administration) |
| Mr. K.P.P.S.K. Pathirana | Chief Executive Officer |
| Mr. K.C. Jayawardena | Director (Sales) |
| Mr. E. Alan Delilken | Acting Director (Finance) |
| Mr. Sampath Seneviratne | Acting Director (Supply Network Development) |
| Mrs. Vajira Samararatne | Deputy Director (Procurement) |
| Mrs. Devika Kumari Athukorala | Deputy Director (Distributions) |
| Mr. A.L.M. Rizwan | Assistant Director (Revenue and Expenditure) |
| Mr. Gayan Liyanage | Acting Assistant Director (Human Resources and Administration) |
| Mr. Dinesh Abeykoon | Head of Information Technology Unit |

## Our gratitude

First of all, on behalf of Laksala, I would like to express my sincere gratitude to His Excellency the President of the Democratic Socialist Republic of Sri Lanka, Honorable Prime Minister, Hon. Minister and Deputy Minister of Industry and Commerce, Resettlement of Protracted Displaced Persons and Co-operative Development. I would also like to express my thankfulness to the members of the Board of Directors who have constantly taken the necessary decisions and conclusions to elevate our organization to the highest position in the industry.

Further, I would like to thank the Secretary to our Ministry for his assistance in the progress of our organization whenever necessary.

I would also like to thank the Heads of Departments who have effectively guided their staff in the administrative, financial, and marketing activities of the organization as well as the other entire staff who have contributed to the efficient and effective operation of the organization.

I would like to express my sincere gratitude to the craftsmen who joined hands with us to accurately identify customer needs, introduce innovations, and provide crafts and souvenirs, including traditional and innovative products. We also extend our special thanks to local and foreign customers who have always kept their trust in our institution.

The institution's sales revenue dropped due to the closure of the country due to the global epidemic of COVID -19, which was arisen in the beginning of 2020, and the absence of local and foreign tourists due to travel restrictions. Therefore, although we have not been able to achieve the expected sales targets this year, I look forward to expanding the institution's sales within the year 2021 by acquiring the expertise needed to further enhance marketing and sales.

While stating that our institution will take all necessary steps to strengthen the rural economy of Sri Lanka in the future and to uplift the living standards of the rural community, ultimately, I would like to mention that we expect to increase our sales to one billion rupees in the coming years.

Further, in accordance with a strategic plan designed to obtain an efficient and effective contribution from the entire staff through the systematic management of the human as well as physical resources of the organization, we also have planned to keep our profit margins growing by 2021, significantly reducing the company's overhead costs.

Chairman,

**Sri Lanka Handicrafts Board- Laksala**

LAKSALA
State Gift & Souvenir Boutique

# SRI LANKA HANDICRAFTS BOARD

## FINANCIAL STATEMENTS
## 31 DECEMBER 2020

2020

**SRI LANKA HANDICRAFTS BOARD**
**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2020**

| | Notes | 2020<br>LKR | 2019<br>LKR |
|---|---|---|---|
| **Revenue** | 3 | 194,740,004 | 617,296,345 |
| Cost of sales | | (85,307,833) | (258,401,407) |
| **Gross profit** | | **109,432,171** | **358,894,938** |
| Grants received | | 21,466,252 | 150,000,000 |
| Other income | 4 | 6,818,812 | 10,806,240 |
| Administrative expenses | 5 | (188,621,582) | (292,262,229) |
| Distribution expenses | 6 | (17,834,739) | (53,802,840) |
| **Results from operating activities** | | **(68,739,086)** | **173,636,109** |
| Finance cost | 7 | (37,004,985) | (74,588,320) |
| **Profit before tax** | | **(105,744,071)** | **99,047,789** |
| Tax | 8 | - | - |
| **Profit for the year** | | **(105,744,071)** | **99,047,789** |

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

**SRI LANKA HANDICRAFTS BOARD**
**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2020**

| | Notes | 2020 LKR | 2019 LKR |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, Plant & Equipment | 09 | 897,120,392 | 947,265,898 |
| **Total non-current assets** | | 897,120,392 | 947,265,898 |
| **Current assets** | | | |
| Inventories | 10 | 619,209,585 | 637,430,580 |
| Trade and other receivables | 11 | 71,085,017 | 86,360,169 |
| Cash and cash equivalents | 12 | 28,002,906 | 28,929,936 |
| **Total current assets** | | 718,297,508 | 752,720,685 |
| **Total assets** | | 1,615,417,900 | 1,699,986,583 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Stated capital | | 69,628,878 | 69,628,878 |
| Capital reserves | | 510,806 | 510,806 |
| Revaluation reserves | | 454,366,157 | 454,366,157 |
| Capital grants | | 107,951,172 | 107,951,172 |
| Retained earnings | | (125,845,784) | (18,714,487) |
| **Total equity** | | 506,611,229 | 613,742,527 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 13 | 56,203,979 | 50,896,038 |
| Deferred income | 14 | 49,504,712 | 74,844,712 |
| Long term borrowings | 15 | 385,279,409 | 388,650,929 |
| **Total non-current liabilities** | | 490,988,100 | 514,391,679 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 522,556,559 | 496,996,396 |
| Income tax payable | 8 | 20,811,536 | 25,459,280 |
| Short term borrowings | 17 | 69,096,784 | 43,076,000 |
| Bank overdrafts | 18 | 5,353,692 | 6,320,701 |
| **Total current liabilities** | | 617,818,571 | 571,852,377 |
| **Total liabilities** | | 1,108,806,671 | 1,086,244,056 |
| **Total equity and liabilities** | | 1,615,417,900 | 1,699,986,583 |

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

The Accounting policies and Notes form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. The Financial Statements were approved by the Board of Directors and singed on their behalf on 24/01/2022 - at the Board meeting held in Laksala Thummulla.

| Mr.S.M.Kodikara | Mrs.N.P.A.R.Jayawardhana | Mr.Lakmal Wikeramaarachchi |
|---|---|---|
| **Board Member** | **Board Member** | **Chairman** |

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

## SRI LANKA HANDICRAFTS BOARD
## STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December 2020**

| | Stated capital | Capital reserves | Revaluation reserves | Capital grants | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | LKR | LKR | LKR | LKR | LKR | LKR |
| **Balance as at 1 January 2019** | 69,628,878 | 510,806 | 454,366,157 | 107,951,172 | (172,251,065) | **460,205,948** |
| Adjustments to prior year errors | - | - | - | - | 54,488,789 | **54,488,789** |
| Profit for the year | | | | | 99,047,789 | **99,047,789** |
| **Balance as at 31 December 2019** | **69,628,878** | **510,806** | **454,366,157** | **107,951,172** | **(18,714,487)** | **613,742,526** |
| Adjustments to prior year errors | | | | | (1,387,226) | **(1,387,226)** |
| Profit for the year | - | - | - | | (105,744,071) | **(105,744,071)** |
| **Balance as at 31 December 2020** | **69,628,878** | **510,806** | **454,366,157** | **107,951,172** | **(125,845,784)** | **506,611,229** |

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

# SRI LANKA HANDICRAFTS BOARD
## STATEMENT OF CASH FLOWS
**For the year ended 31 December 2020**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash generated from operations** | | **LKR** | **LKR** |
| Profit before tax | | **(105,744,071)** | **99,047,789** |
| **Adjustments for:** | | | |
| Assets Disposal income | | - | (127,716) |
| VRS amortization charge | | - | 2,465,874 |
| Retirement benefit obligations | | 7,129,839 | 6,964,310 |
| Interest expenses | | 36,856,652 | 74,236,920 |
| Depreciation | | 26,414,467 | 25,928,260 |
| Amortization of capital expenditure costs | | 25,600,365 | 25,340,000 |
| Prior Year Adjustment | | (1,387,226) | (77,794,472) |
| Grants amortised | | (25,340,000) | (25,340,000) |
| | | **(36,469,974)** | **130,720,965** |
| **Changes in working capital** | | | |
| Inventories | | 18,220,995 | (41,763,042) |
| Trade and other receivables | | 15,275,152 | 19,892,872 |
| Trade and other payables With Tax | | 20,912,419 | (11,905,275) |
| **Cash generated from operations** | | **17,938,592** | **96,945,520** |
| Gratuity paid | | (1,821,898) | (573,540) |
| Interest paid | | (36,856,652) | (74,236,920) |
| **Net cash generated from operating activities** | | **(20,739,958)** | **22,135,060** |
| **Cash flows from investing activities** | | | |
| Assets Disposal income | | - | 164,256 |
| Purchases of property, plant & equipment | | (1,869,331) | (6,665,294) |
| **Net cash used in investing activities** | | **(1,869,331)** | **(6,501,038)** |
| **Cash flows from financing activities** | | | |
| Long/short term loans obtained | | 26,707,791 | 273,000,000 |
| Loan repayments | | (4,058,524) | (274,585,083) |
| **Net cash used in financing activities** | | **22,649,267** | **(1,585,083)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **39,979** | **14,048,939** |
| Cash and cash equivalents at the beginning of the year | | 22,609,235 | 8,560,296 |
| **Cash and cash equivalents at the end of the year** | | **22,649,214** | **22,609,235** |
| Bank overdrafts | **18** | (5,353,692) | (6,320,701) |
| Cash in hand and at bank | **12** | 28,002,906 | 28,929,936 |
| | | **22,649,214** | **22,609,235** |

Notes from pages 9 to 28 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 2020 and for the year ended, have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka.

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

### 2.1 Use of Accounting Estimates, Assumptions and Judgments

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

### 2.2 Going Concern

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

### 2.3 Comparative Information

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

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

### 2.4 Summary of Significant Accounting Policies

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

### 2.4.1 Revenue Recognition

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

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

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

### 2.4.2 Property, Plant and Equipment

a) Recognition and Measurement

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

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

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

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

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

b) Depreciation

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

The principal rates used are as follows.

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

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

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

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

**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.

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

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 123 employees of the organization in the period of 2020. 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.

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

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.

***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.

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

***Other Operating Income***

a) Profit and loss from sale of property, plant and equipment.

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

***Grants Received***

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

***Capital Grants Received***

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

***Recurrent Grants Received***

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

**2.4.14 Expense Recognition**

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

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

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

### 2.4.15 Borrowing Costs

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

### 2.4.16 Commitments and Contingencies

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

### 2.4.17 Events Occurring After the Balance Sheet Date

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

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

| 3. Revenue | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **Showroom sales** | | |
| Thummulla | 79,691,725 | 265,742,091 |
| Museum | 19,175,538 | 76,213,119 |
| Galle | 19,452,867 | 60,187,419 |
| Peradeniya | 16,075,609 | 54,632,521 |
| Katunayaka | 11,240,568 | 33,397,236 |
| Fort | 10,143,012 | 28,098,047 |
| Welipenna - 1 | 11,152,021 | 32,087,176 |
| Battaramulla | 5,698,666 | 18,543,344 |
| Kandy | 8,247,892 | 15,160,845 |
| Katubadda | 5,017,082 | 15,415,364 |
| Pinnawala | 4,178,202 | 10,473,120 |
| Nuwara Eliya | 1,818,842 | 3,341,825 |
| **Total showroom sales** | 191,892,024 | 613,292,107 |
| Direct/custom made orders | 2,847,980 | 9,066,676 |
| | **194,740,004** | **622,358,783** |
| Nation building tax (NBT) | - | (5,062,438) |
| | **194,740,004** | **617,296,345** |

| 4. Other income | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| Rental income | 5,883,099 | 10,727,613 |
| Interest on saving account | 81,044 | 78,627 |
| Foreign exchange gain | 854,669 | - |
| | **6,818,812** | **10,806,240** |

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

| 5. Administrative expenses | Note | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | | LKR | | LKR | |
| Salaries & Allowance | | 69,534,613 | | 78,609,104 | |
| Incentive | | - | | 8,171,280 | |
| E.P.F. & E.T.F. | | 9,886,048 | | 10,277,712 | |
| Gratuity | | 7,129,839 | | 7,278,099 | |
| Transport Allowance | | 4,965,599 | | 13,501,559 | |
| Directors Fees & Board Meeting Expenses | | 548,939 | | 1,301,166 | |
| Audit Fees/Proffessional Fees | | 1,410,000 | | 1,567,992 | |
| Legal Fees | | 135,800 | | 891,040 | |
| Security Charges | | 11,184,146 | | 15,356,646 | |
| Rent & Rates | | 16,467,874 | | 36,212,970 | |
| Electricity | | 10,687,551 | | 19,536,248 | |
| Deprerciaton | | 26,414,467 | | 25,928,260 | |
| Cleaning Services | | 4,927,744 | | 7,978,668 | |
| Other Staff Cost * | **5.1** | 3,810,173 | | 19,424,090 | |
| Other Operational Cost * | **5.2** | 21,518,789 | | 46,541,184 | |
| | | | **188,621,582** | | **292,576,018** |

**Subnote**
**5.1**

| Included under other ataff cost * | 2020 | | 2019 | |
|---|---|---|---|---|
| | LKR | | LKR | |
| Overtime | - | | 7,958,682 | |
| Bonus | - | | 1,741,500 | |
| Staff Welfare | 2,582,908 | | 5,601,924 | |
| Cash Security Interest | 212,241 | | 213,769 | |
| Staff Training | 29,000 | | 279,589 | |
| Medical Expenses | 986,024 | | 1,162,752 | |
| VRS | - | | 2,465,874 | |
| | | **3,810,173** | | **19,424,090** |

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

| Subnote 5.2 | 2020 LKR | | 2019 LKR | |
|---|---|---|---|---|
| **Included under other operation cost *** | | | | |
| Consultancy Fees | - | | 76,500 | |
| Advertisement | 324,924 | | 1,089,270 | |
| Printing & Stationery | 1,146,501 | | 2,614,117 | |
| News Papers & Periodicals | 7,590 | | 63,090 | |
| Postage/Tele/Telex | 11,029,945 | | 11,913,311 | |
| Fuel & Lubricants | 595,729 | | 1,439,559 | |
| Stock Verification | 210,356 | | 377,900 | |
| Trade Licence Fees | 252,720 | | 252,720 | |
| Computer Expenses | 170,005 | | 245,919 | |
| Insurance | 278,607 | | 2,384,270 | |
| Water Bill | 368,221 | | 475,049 | |
| Rep & Maint - Building | 1,322,226 | | 8,627,199 | |
| Rep & Maint - Machinery | 1,272,935 | | 1,545,930 | |
| Vehicle Rental Charges | 3,025,968 | | 10,930,281 | |
| Grant & Building Amotization-Net Difference | 260,365 | | - | |
| Concession Fees | 1,197,707 | | 4,500,416 | |
| Opening Ceromany Expenses | 49,734 | | - | |
| Stamp Fees | 5,256 | | 5,653 | |
| | | **21,518,789** | | **46,541,184** |

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

| 6. Distribution expenses | Nots | 2020 | 2019 |
|---|---|---|---|
| | | LKR | LKR |
| Guide Commission | | 12,089,387 | 35,276,106 |
| Credit card Commision | | 2,415,398 | 7,732,406 |
| Packing Materials Locals | | 1,157,820 | 5,138,417 |
| Business Promotion | | 356,236 | 1,831,203 |
| Rep.& Main.Purchase Goods | | 102,760 | 286,269 |
| Non Refundable Tender Deposits | | - | 15,365 |
| Goods Transport | | 79,300 | 133,825 |
| Travelling Expenses | | 1,038,372 | 2,499,417 |
| Valuation Expenses | | 77,420 | 204,908 |
| Insurance & Freight Charges | | 161,511 | 652,274 |
| Special Order Expenses | | 356,535 | 32,650 |
| | | **17,834,739** | **53,802,840** |

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **7. Finance costs** | | |
| Bank charges | 148,333 | 345,488 |
| Overdraft interest | - | 5,912 |
| Loan interest -Boc | 27,033,067 | 54,337,642 |
| -Rdb | 9,823,585 | 19,899,278 |
| | **37,004,985** | **74,588,320** |

**8. Tax**

The payables showing here is accumulated from previous years which was not settled due financial difficulties that the Board had went through. Since year 2019, the Board has started paying taxes gradually to comply with Tax laws

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

**09. Property, plant and equipment**

| | Notes | 2020 LKR | 2019 LKR |
|---|---|---|---|
| Freehold assets | 9.1 | 698,222,582 | 723,573,692 |
| Building development costs | 9.2 | 198,897,809 | 223,692,208 |
| | | **897,120,391** | **947,265,900** |

**9.1 Freehold assets**

| | Land LKR | Buildings LKR | Plant & machinery LKR | Furniture fittings & office equipment LKR | Computer equipment LKR | Articles LKR | Capital work in progress LKR | Total LKR |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | |
| **Balance at 1 January 2019** | 396,037,214 | 248,797,761 | 100,601,721 | 59,670,175 | 30,886,409 | 31,109,750 | 45,451,390 | **912,554,420** |
| Additions | | - | 299,439 | 488,054 | 2,450,757 | 1,433,624 | - | **4,671,874** |
| Disposals | | | (104,399) | | | | | **(104,399)** |
| **Balance at 31 December 2019** | **396,037,214** | **248,797,761** | **100,796,761** | **60,158,229** | **33,337,166** | **32,543,374** | **45,451,390** | **917,121,895** |
| Disposal | | | | | | | | - |
| Additions | - | - | 110,730 | 21,500 | 75,150 | 855,985 | - | **1,063,365** |
| **Balance at 31 December 2020** | **396,037,214** | **248,797,761** | **100,907,491** | **60,179,729** | **33,412,316** | **33,399,359** | **45,451,390** | **918,185,260** |
| **Depreciation** | | | | | | | | |
| **Balance at 1 January 2019** | - | 32,640,398 | 53,127,011 | 34,478,499 | 29,472,703 | 16,761,239 | - | **166,479,850** |
| Adjustments | | 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 | | **25,928,258** |
| **Balance at 31 December 2019** | | 40,051,629 | 63,125,825 | 40,470,927 | 29,974,352 | 19,925,470 | | **193,548,203** |
| Adjustments | | | | | | | | - |
| Disposal | | | | | | | | - |
| Charge for the year | - | 6,203,277 | 10,089,835 | 6,016,898 | 781,157 | 3,323,308 | | **26,414,475** |
| **Balance at 31 December 2020** | - | **46,254,906** | **73,215,660** | **46,487,825** | **30,755,509** | **23,248,778** | - | **219,962,678** |
| **Carrying amounts** | | | | | | | | |
| At 31 December 2019 | 396,037,214 | 208,746,132 | 37,670,936 | 19,687,302 | 3,362,814 | 12,617,904 | 45,451,390 | 723,573,692 |
| **At 31 December 2020** | **396,037,214** | **202,542,855** | **27,691,831** | **13,691,904** | **2,656,807** | **10,150,581** | **45,451,390** | **698,222,582** |

**9.2 Building development costs**

| | 2020 LKR | 2019 LKR |
|---|---|---|
| **Cost or deemed cost** | | |
| Balance at 1 January | 386,446,053 | 384,452,630 |
| additional | 805,966 | 1,993,423 |
| **Balance at 31 December** | 387,252,019 | 386,446,053 |
| **Amortisation** | | |
| Balance at 1 January | **162,753,845** | **137,413,843** |
| Charge for the year | 25,600,365 | 25,340,002 |
| **Balance at 31 December** | **188,354,210** | **162,753,845** |
| **Carrying amounts** | | |
| At 1 January | 223,692,208 | 247,038,787 |
| additional | 805,966 | 1,993,423 |
| **At 31 December** | **198,897,809** | **223,692,208** |

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

**9.2 Building development costs (contd.)**

**Amortisation**

| Site | Year | Cost incurred | Rate @ 2 decimal | Cumulative amortisation balance at 01 January 2020 | Amortised during 2020 | Cumulative amortisation balance at 31 Dec 2020 | Carrying amounts of building development cost at 31 Dec 2020 |
|---|---|---|---|---|---|---|---|
| Museum | 2013 | 172,847,765 | | | | | |
| Museum | 2014 | 1,881,295 | | | | | |
| Museum | 2015 | 389,177 | | | | | |
| Total | | **175,118,237** | 5.77% | 63,848,983 | 10,101,214 | 73,950,197 | 101,168,040 |
| Battaramulla | 2013 | 117,704,905 | | | | | |
| Battaramulla | 2014 | 7,119,771 | | | | | |
| Battaramulla | 2015 | 9,744,207 | | | | | |
| Total | | **134,568,883** | 5.77% | 47,836,285 | 7,762,237 | 55,598,522 | 78,970,361 |
| Pinnawala | 2013 | 10,086,000 | 10.00% | 7,060,200 | 1,008,600 | 8,068,800 | 2,017,200 |
| Wagolla | 2014 | 810,487 | 10.00% | 486,291 | 81,049 | 567,340 | 243,147 |
| Peradeniya | 2013 | 31,657,966 | | | | | |
| Peradeniya | 2014 | 8,968,353 | | | | | |
| Peradeniya | 2015 | 677,220 | | | | | |
| Total | | **41,303,539** | 10.00% | 27,880,198 | 4,130,354 | 32,010,552 | 9,292,987 |
| Welipanna | 2013 | 10,269,019 | 10.00% | 7,188,315 | 1,026,902 | 8,215,217 | 2,053,802 |
| Race course | 2013 | 1,113,613 | 10.00% | 779,526 | 111,361 | 890,887 | 222,726 |
| Katunayake | 2013 | 1,060,000 | 10.00% | 742,000 | 106,000 | 848,000 | 212,000 |
| Unawatuna | 2013 | 1,000,000 | 10.00% | 700,000 | 100,000 | 800,000 | 200,000 |
| K-Zone | 2013 | 8,353,071 | 10.00% | 5,847,147 | 835,306 | 6,682,453 | 1,670,618 |
| Thunmulla | | 769,781 | 10.00% | 384,898 | 76,977 | 461,875 | 307,906 |
| kandy | 2019 | 1,993,423 | | - | | | |
| | | 805,966 | | | | | |
| | | 2,799,389 | 10.00% | | 260,366 | 260,366 | 2,539,023 |
| **Grand total** | | **387,252,019** | | **162,753,843** | **25,600,366** | **188,354,209** | **198,897,810** |

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

| **10. Inventories** | **Notes** | **2020** **LKR** | **2019** **LKR** |
|---|---|---|---|
| Showroom trading first quality finished goods | | 469,284,075 | 490,273,215 |
| Second quality finished goods | | 148,076,152 | 145,301,255 |
| Raw materials and work in progress | **10.1** | 1,849,358 | 1,856,110 |
| | | **619,209,585** | **637,430,580** |

* stock value of Rs.1,629,137.00 which were in second quality in 2019.Transfered to first quality stocks

**10.1 Raw materials and work in progress**

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

| **11. Trade and other receivables** | **Notes** | **2020** **LKR** | **2019** **LKR** |
|---|---|---|---|
| Trade receivables | **11.1** | 8,851,463 | 15,849,569 |
| Other receivables | **11.2** | 14,605,047 | 20,086,262 |
| Deposits and prepayments | **11.3** | 47,628,507 | 50,424,338 |
| | | **71,085,017** | **86,360,169** |
| **11.1 Trade receivables** | | | |
| Trade Debtors | | 8,765,105 | 13,019,327 |
| Receivable Credit Card | | 86,358 | 2,830,242 |
| | | **8,851,463** | **15,849,569** |
| **11.2 Other receivables** | | | |
| Staff loans | | 897,500 | 116,250 |
| Rent receivable | | 4,625,800 | 10,921,900 |
| ESC receivable | | 9,049,198 | 9,049,198 |
| Miscellaneous Receivable | | 32,549 | (1,086) |
| | | **14,605,047** | **20,086,262** |
| **11.3 Deposits and prepayments** | | | |
| Security deposits | | 1,925,446 | 1,925,446 |
| Prepayments | | 4,174,854 | 5,706,303 |
| Advances paid | | 20,168,978 | 22,511,554 |
| Retention money | | 12,502,564 | 12,502,564 |
| Refundable deposit | | 9,037,344 | 7,881,157 |
| Widower orphanage pension scheme | | - | 77,993 |
| Guarantee receivables | | (180,679) | (180,679) |
| | | **47,628,507** | **50,424,338** |

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

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **12. Cash and cash equivalents** | | |
| Cash at bank | 27,471,630 | 26,888,268 |
| Cash in hand | 531,276 | 2,041,668 |
| | **28,002,906** | **28,929,936** |
| | | |
| **Other components in revenue reserve** | | |
| Opening balance | (123,528,974) | (178,017,763) |
| Previous year revision | (1,387,226) | 54,488,789 |
| | **(124,916,200)** | **(123,528,974)** |

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

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **13. Retirement benefit obligations** | | |
| Opening balance | 50,896,038 | 44,191,479 |
| Gratuity provision for the year | 7,129,839 | 7,278,099 |
| Gratuity paid during the year | (1,821,898) | (573,540) |
| Closing balance | **56,203,979** | **50,896,038** |

The liability for retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 123 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 2019 | Amortised amount during 2020 | Unamortised balance as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Economic Development | **2012** | 10% | 100,000,000 | 20,000,000 | 10,000,000 | **10,000,000** |
| Ministry of Trade and Commerce | **2013** | 10% | 36,000,000 | 10,800,000 | 3,600,000 | **7,200,000** |
| Budget allocation | **2013** | 10% | 10,224,643 | 3,067,393 | 1,022,464 | **2,044,929** |
| Budget allocation | **2013** | 10% | 42,109,637 | 16,843,854 | 4,210,964 | **12,632,890** |
| Budget allocation | **2013** | 10% | 11,099,920 | 3,329,976 | 1,109,992 | **2,219,984** |
| Budget allocation | **2013** | 10% | 7,828,426 | 2,348,530 | 782,843 | **1,565,687** |
| Economic Development | **2014** | 10% | 35,000,000 | 14,000,000 | 3,500,000 | **10,500,000** |
| Budget allocation | **2014** | 10% | 11,137,374 | 4,454,960 | 1,113,737 | **3,341,223** |
| **Total** | | | **253,400,000** | **74,844,713** | **25,340,000** | **49,504,713** |

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

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **15. Long term borrowings** | | |
| Opening balance | 431,726,929 | 303,929,372 |
| Loan obtained during the year | 8,323,585 | 273,000,000 |
| Loan paid during the year | (327,105) | (145,202,443) |
| Closing balance | 439,723,409 | 431,726,929 |
| (Less) Payable within one year | (54,444,000) | (43,076,000) |
| **Long term loan obligations** | **385,279,409** | **388,650,929** |

**15.1 Bank of Ceylon – Loan Balance Rs.273 Mn as at end 2020**
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 2019 to Rs.273Mn.

**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. In the year 2020 due to the financial situation arised from COVID-19 the interest was capitalzed for Rs.8.3Mn which laksala could not pay.

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

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **16. Trade and other payables** | | |
| Trade payables | 334,334,840 | 338,046,682 |
| Other payables | 112,410,635 | 104,787,627 |
| Accrued expenses | 75,811,084 | 54,162,087 |
| | **522,556,559** | **496,996,396** |
| | | |
| **17. Short term borrowings** | | |
| Current portion of the long term loan obligations | 54,444,000 | 43,076,000 |
| Short term loan | 14,652,784 | |
| | **69,096,784** | **43,076,000** |

** Interest payables which was counted as short term borrowings in the previous year, is removed from short term borrowings and brought under other payables in 2020.

| | 2020 | 2019 |
|---|---|---|
| | LKR | LKR |
| **18. Bank overdrafts** | | |
| Bank overdrafts | **5,353,692** | **6,320,701** |

The bank overdraft amounting to Rs.5,353,692.00 (2019: Rs.6,320,701.00 ) is the balance appearing in the cash book as of the year end. With the restructuring of the BOC loans in the financial year an approval was provided by the bank for an overdraft facilty of Rs.15 Mn.

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

### 19. Contingent Liabilities and Commitments

**Pending litigations against the board:**

| Court No. | Case filed on: | Case filed by | Nature of the case | Current status |
|---|---|---|---|---|
| DMR/0280/13 | 13-Jul-15 | Kotte Municipal Council | Litigation filed in the District Court by the Kotte Municipal Council against Laksala for breaching of contract for fixing of solar panels. | Decision was given to pay Rs.4,020,000 along with interest to Kotte Municipal Council. However, Laksala has filed an appeal on this case. As the court decision was given, a similar amount was provided as a payable as of 31 December 2020. |
| 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 2020 |
| 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 were held against two senior officers of Sri Lanka Handicrafts Board who have been interdicted in the year 2015. And the decision of the Board of Directors is pending

# National Audit Office

My No.: IMT/B/SLHB/189/2020/FS Your No.: Date: 19 May 2022

Chairman,

Sri Lanka Handicrafts Board

**Report of the Auditor General on Financial Statements and Other Legal and Regulatory Requirements of the Sri Lanka Handicrafts Board for the Year Ended 31 December 2020 as per Section 12 of the National Audit Act, No. 19 of 2018.**

**--------------------------------------------------------------------------------------------------------**

The aforesaid report has been sent herewith.

**Sgd by / W.P.C. Wickramaratne**

Auditor General

Copies : 1. Secretary, State Ministry of Batik, Handloom & Local Apparel Production

2. Secretary, Ministry of Finance

# National Audit Office

My No.: IMT/B/SLHB/189/2020/FS Your No.: Date: 19 May 2022

Chairman

Sri Lanka Handicrafts Board

**Report of the Auditor General on Financial Statements and Other Legal and Regulatory Requirements of the Sri Lanka Handicrafts Board for the Year Ended 31 December 2020 as per 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 2020, comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the provisions of the National Audit Act, No.19 of 2018 and the Finance Act No.38 of 1971. My report will be tabled in Parliament in due course as per Article 154(6) of the Constitution.

In my opinion, because of the significance of the matters described in paragraph 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 2020 and its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

### 1.2 Basis for Adverse Opinion

a) In 2020, the stock value have been overstated by Rs. 3,011,720 due to being brought forward the value of bulk damages in the damage stock accounts of the Board for the years 2019 and 2020 amounting to that amount as damaged stock instead of being removing from the books, although "the amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write down or loss occurs" according to Section 34 of the Sri Lanka Accounting Standards No. 02.

b) In the second quality stock amounting Rs. 148,076,152, which was 9.2% of the total assets for the year under review, value of goods identified in stock surveys included stock surpluses, deficiencies, damages, items to be destroyed, and expired goods had been included in the suspense account. A physical inspection of the warehouse premises at Katubedda on 15 December 2021 revealed that some of these stocks were perishables and the other stocks represented a lower sale value than their cost. Profit from that amount was overestimated as their value was not shown to the net realization value as per Section 28 of Sri Lanka Accounting Standards No. 02.

c) Completely depreciated computers worth Rs. 29,112,880 that are currently in use were not stated in the financial statements having conducted an revaluation in accordance with Sri Lanka Accounting Standards 16.

d) According to Section 118 of Sri Lanka Accounting Standards 38, the Intangible Assets owned by the Board should be disclosed separately and should be amortized on the basis of their useful life, but the SAP and POS Computer Software amounting to Rs. 10,193,250 (Expenditure from 2011 to 2013) were not listed as Intangible Assets in financial statements and were accounted for under computers and hardware.

e) According to Section 17 of 20 of the Sri Lanka Accounting Standards, the amortization ratio was not maintained in proportion to the depreciation of other assets of the Board and accounting policy used for government grants in financial statements was not disclosed according to Section 39.

f) The value of nine plots of land valued at Rs. 103,030,000 in 1997, which were possessed by the Department of Small Industries and transferred to the Board in 1993 with the approval of the Ministry, had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standards 1.

g) It had not been substantially disclosed in the financial statements of the year under review regarding the doubtful debts that are brought forward since the year 2018 as per the section 32 of the Sri Lanka Accounting Standards 08.

h) In terms of paragraph 26 of 20 of the Sri Lanka Accounting Standards, capital grants should be identified as deferred income when accounting and should be amortized over the lifetime of the relevant assets and identified under income in the income statement. However, since the Board had not accounted the amortization of Rs. 25,340,000 as income, the income was understated than that amount. Without accounting the relevant amortization value as expenses, only the difference of Rs. 260,365/- had been accounted as the operational expenditure.

i) Board's online inventory account had a balance of Rs. 12,142,584 as at 31 December 2020 which was coming forward from the year 2014. False inventory value, which does not exist in fact, was stated in the accounts due to non-compliance with the online stock balance in a timely manner.

j) Expenditure of Rs. 805,966 to be accounted for under furniture, equipment and other equipment under Kandy Building Development during the year under review was accounted for as Building Development.

k) A sum of Rs. 15,248,576 had been paid in 2012 for the acquisition of property belonging to Lanka Salusala by The Board. As the ownership of this land has not been taken over till January 2022, it should have been accounted for in advance but since 2012 it has been accounted as fixed assets.

l) Due to the existence of a debit balance of Rs. 4,004,034 in the Creditors' Account, which has not been settled as at 31st December 2021, the total credit balance was less accounted for than that amount.

m) Expenditure on office equipment and service charges amounting to Rs. 1,566,469 from 2012 to 2019 was accounted for under computers and hardware.

n) Schedules, time analysis and balance confirmation had not been submitted for monitoring the value of the collection of other payable expenses of Rs. 43,987,327 mentioned in the financial statements.

o) No written evidence was presented to the audit to confirm the unidentified Rs. 12,002,564 withholding balance, which was coming up without settlement as an initial balance in the year 2012.

p) The Board did not have any information to confirm the value of Rs. 1,113,557 which has been including in the rent receivable coming forward as a starting balance since 2011.

q) The fixed assets of Rs. 81, 078, 806 included in the financial statements of the year under review had not been confirmed by the survey reports.

r) Expenditure on accrued expenditure amounting to Rs. 6,546,541 was not submitted to the audit.

s) A capital grant balance of Rs.107,951,172 has been coming forward under claims for many years and no policy decision has been taken to write off that balance. Further, no information was submitted to the audit to confirm the balance.

t) In the year 2011 when the preparation of financial statements by the SAP system commenced, debit balances amounting to Rs. 25,540,390 in respect of 4 accounts and six credit balances amounting to Rs. 30,805,565 had been accounted initial balances and carried forward until 2020. No evidence was presented to the audit to confirm the accuracy of these balances. No action has been taken so far to investigate and resolve the causes of these balances.

u) Although the total stock value as at 31 December 2020, according to the financial statements, was Rs. 619,209,585, according to the physical inventory survey reports it was Rs. 481,768,792. Hence there was a difference of Rs. 137,440,793.

v) Although the balance of the special-order stock account is recorded as a negative balance of Rs. 802,034 as per the records of the Board's Stock Control Unit and ledger, according to the final stock summary report, the physical stock value was stated as a positive balance of Rs. 1,090,325. However, according to the SAP computer system, there was no balance and hence, a difference of Rs. 1,090,352 was observed between the physical stock balance and the account system balance. Thus, no action had been taken to identify discrepancies between the physical asset balances and the computer system balances within the organization and to make comparisons.

w) The balance of properties, plants and equipment as at 31.12.2020 according to the financial statements of the year under review and the survey report on the same day observed a difference of Rs. 132,842,084.

x) According to the financial statements, the total amount of tax due of the Board was Rs. 54,827,612 but according to the balance confirmation letter of the Inland Revenue Department, the total amount of tax due was Rs. 56,370,397. The balance also included an additional fine of Rs. 16,709,488 and a surcharge of Rs. 590,760. Accordingly, the amount of tax payable was understated in the financial statements by Rs. 1,542,785.

I conducted the audit in accordance with the Sri Lanka Audit Standards (S.L.A.S.). My liability under these audit standards is further elaborated in the Responsibility of the Auditor in relation to the Auditing of Financial Statements in this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### 1.3 **Other information included in the Annual Report 2020 of the Board**

Other information means the information included in the Annual report 2020 of the Board obtained by me prior to the date of this audit report but not included in my audit report in that regard. The management is responsible for such other information.

Other information is not covered by my opinion on the Financial Statements and I do not declare any assurance or opinion in that regard.

My responsibility regarding my audit on the Financial Statements is to read, if it is able to obtain the other information identified above, and consider them whether quantitatively inappropriate with the financial Statements or according to my knowledge acquired during the audit, or in a separate way.

If I conclude that the other information is indicated with quantitative errors, when I read the Annual Report 2020 of the Board, that information shall be communicated to the administrative parties for rectifications. If there are further unrectified information stated, I will include those in the report to be tabled in the Parliament by me in terms of the Article 154 (6) of the Constitution.

## 1.4 Responsibilities of the Management and Controlling Parties for Financial Statements

It is the responsibility of the management to prepare these financial statements in accordance with the Sri Lanka Accounting Standards and to make reasonable submissions and to determine the internal controls required to enable the preparation of financial statements without quantitative misrepresentations.

In preparing the financial statements, it is the responsibility of the management to determine the ability to maintain the Board continuously, and management is also responsible for keeping accounts on a sustainability basis and disclosing facts relevant to the continued existence of the Board unless management intends to liquidate the board or suspend operations when there is no other option.

Responsibility for the board's financial reporting process rests with the governing parties.

In terms of Sub-section 16 (1) of the National Audit Act No. 19 of 2018 the Board shall maintain proper books and records on its own income, expenditure, assets and liabilities so as to be able to prepare the Annual and Current Financial Statements of the Board.

## 1.4 Responsibility of the Auditor in relation to the Auditing of Financial Statements

My purpose is to provide fair proof that the financial statements as a whole are free from misrepresentations caused by fraud and errors and to issue the auditor's report that includes my opinion. While fair certification is a high level of guarantee, auditing in accordance with Sri Lanka Audit Standards does not always guarantee that it will detect quantitative misrepresentations. Fraud and misconduct, individually or collectively, can lead to quantitative misrepresentations and are expected to influence the economic decisions made by users based on these financial statements.

I conducted the audit in accordance with the Sri Lanka Audit Standards with professional judgment and professional skepticism. Furthermore,

- It is my opinion that obtaining adequate and appropriate audit evidence to avoid the risks posed by fraud or error by designing appropriate audit procedures from time to time in identifying and assessing the risks of quantitative misrepresentations in financial statements due to fraud or errors. The impact of fraud is far greater than the impact of quantitative misrepresentations, and corruption, forgery, intentional evasion, or evasion of internal controls can lead to fraud.

- Although an understanding of the internal governance of the Board was gained in order to plan appropriate audit procedures from time to time it does not intend to express an opinion on the effectiveness of internal control.

- The fairness of the accounting policies and accounting estimates used and the appropriateness of the relevant disclosures made by management were evaluated.

- The relevance of using the institution's continuity basis for accounting was determined based on the audit evidence obtained as to whether there was quantitative uncertainty about the board's continuity due to events or circumstances. If I conclude that there is sufficient uncertainty, my audit report should focus on the disclosures made in the financial statements and if that disclosure is not sufficient, my opinion should be modified. However, continued existence may end on future events or circumstances.

- The presentation, structure and content of the financial statements, including disclosures, were evaluated and the transactions and events on which they were based were included in the financial statements in an appropriate and fair manner was evaluated.

The governing parties were briefed on important audit findings identified during my audit, key internal governance weaknesses and other issues.

## 2. Report on other Legal and Regulatory Requirements

2.1 The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

2.1.1 In accordance with the requirements of Section 12 (a) of the National Audit Act No. 19 of 2018, due to the impact of the facts described in the Basis for Adverse Opinion of my report, the board had not maintained the proper financial reports.

2.1.2 The financial statements submitted by the Board in accordance with the requirement of Section 6 (1) (d) (III) of the National Audit Act No. 19 of 2018 correspond to the previous year.

2.1.3 Recommendations made by me during the last year in accordance with the requirement of Section 6 (1) (d) (IV) of the National Audit Act No. 19 of 2018 are included in the financial statements submitted other than the observations 1.2 (g), (o), (q), (u), (x) 2.2.2 (a) and 3 (b) of this report.
.

2.2. In restricting the action taken and the evidence obtained and quantitative facts, nothing caught my attention enough to make the following statements.

2.2.1 whether any member of the governing body of the Board has any direct or indirect interest in any contract entered into by the Board in accordance with the requirement of Section 12 (d) of the National Audit Act No. 19 of 2018

2.2.2 whether the auditee has not complied with any applicable written law or other general or special directions issued by the governing body of the Board as required by Section 12 (f) of the National Audit Act No. 19 of 2018.

| | Reference to Rules / Command | Description |
|---|---|---|
| (a) | Sections 9.3.1 (vi) and (vii) of the Public Enterprises Circular No. PED / 12 dated 02.06.2003 | Acting appointments to vacant posts should not be made indefinitely and should be limited to a maximum period of three months, but eleven officers were given acting appointments for long periods of time without complying to it. |
| (b) | Section 12.2 of Chapter VII of the Establishments Code | Acting appointments were made to three officers who were recruited on a contract basis and did not hold permanent positions on the Board. |
| (c) | Letter No. DMS/1702/VO-1 II of the Director General of the Department of Management Services dated 27th September 2018 | Although 191 staff posts have been approved, the Board was not able to absorb the permanent staff to approved posts even until the date of this report. |

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

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

## 3. Other Facts

(a) In 2013, the Regional Development Bank provided a loan of Rs. 200 million to the Sri Lanka Handicrafts Board to meet the working capital requirements of suppliers. According to the agreement, it was to be paid in monthly installments within a year and 9% interest was to be paid on the loan. Due to non-payment of installments and interest due, the loan due at the end of the year 2020 was Rs. 158,399,824 and the interest payable was Rs. 12,492,119. On 24.09.2020, the Bank had provided a moratorium loan amounting to Rs. 8,323,585 in interest. Accordingly, the interest payable to the Regional Development Bank as at 31.12.2020 is Rs. 4,168,534 and the loan amount is Rs. 166,723,409 and the Board also had to incur additional costs due to the calculation of interest on the loan interest of Rs. 8,323,585 which was capitalized on non-payment of loan interest.

(b) The board uses software called SAP for accounting and stock management, and software called POS for day-to-day sales. Although the SAP software facilitates all areas of an organization such as financial management, sales and customer management, inventory management, purchasing system, information analysis and reporting, human resource management, the Board uses it only for basic accounting purposes. Accordingly, the system had been underutilized for ten years at a cost of over Rs. 9 million. The SAP software has not been updated and used effectively even now after 2015 due to the use of a computer system with high maintenance and upgrade costs that the financial system of the Board could not afford. Although these software have been in use for a long time, the service agreements with the parent companies associated with the software have not been updated. Failure to update the Terms of Service would result in the loss of new versions and upgrades of the Software. Even if the organization's data is backed up, there is a great risk regarding the organization's data in the system due to the inability to re-enter the data into the system (reinstallation) in case of an emergency. Rs. 1,193,250 was spent on the POS software and it was updated only up to 2018. The software provided barcode recognition and label design, but was used only for stock quality and sales purposes.

(c) In 2013 at a cost of Rs. 45,451,390, Fort Laksala, a 44,000 sq. ft. four-storey building, was assigned to an unqualified private contractor, who has no ICTAD qualifications, outside the tender procedure for renovation and regardless of the procurement instructions. According to the report by ICTAD, the board should have received Rs. 30 million from the contractor after deducting the value of the physical work. Due to the halt in construction, the remaining area out of the above 44,000 square feet excluding 1,200 square feet land on which showrooms are maintained, remains unusable and idle for nearly eight years. This building of great economic value was in a state of disrepair as renovations were halted and the Board had lost a large amount of revenue which it could have earned annually.

(d) The Board had mortgaged the Laksala building for working capital purposes and had paid Rs. 238,783,673 in interest to the Bank of Ceylon on loans of Rs. 950 million obtained during the period 2012-2018. By the end of 2019, the remaining 273 million had been re-registered as three new loans. A six-month sponsorship period was given for the repayment of the above loan installments, which also expired in April 2020. Accordingly, by 31 December 2021, the audit date, the Board had not been able to pay the installments of Rs. 28,076,000 and the interest due on loans amounting Rs. 21,828,756 as at December 31, 2020.

(e) Apart from the showroom, government audit division, purchasing division and warehouse, out of five 39,364 sq ft buildings in Katubedda, Moratuwa premises which is two acres and 21 perches land worth Rs. 48,318,157 and handed over to the Sri Lanka Handicrafts Board by the Department of Small Industries, the Laksala carpentry factory and hostel which have approximately 15,000 sq ft of space and the carpentry factory's assets have been idle since about 2012.

(f) Cabinet Decision No. 12/1523/553/020 dated October 11, 2012 approved the transfer of legal ownership of one acre and 30.6 perches land and buildings at Lanka Salusala Branch, Unawatuna, Galle to the Sri Lanka Handicrafts Board. Accordingly, the Board had paid Rs. 15,248,576 on 12 December 2012 for the voluntary retirement of the 13 employees of the Lanka Salusala Branch, considering the purchase of the land and the building where the Salusala Branch is located as the purchase precedent. Although nine years have passed since the payment was made to purchase the land, it could not be taken over by the Board due to another party filing a case against Salusala regarding the said property.

(g) The Bank of Ceylon had restricted the circular credit facility from Rs. 150,000,000 in 2014 to Rs. 15,000,000 on July 3, 2019 to pay suppliers to the Sri Lanka Handicrafts Board. The Board had taken loans worth Rs. 18,384,206 from time to time during the year under review and the short-term loan balance as at 31 December 2020 was Rs. 14,652,784. Rs. 774,036 had been paid for the year 2020/21 as loan interest on loans obtained and this included interest payments with a penalty of Rs. 402,981 charged by the Bank for late repayment of loans.

(h) Total sales revenue which was Rs. 345,040,671 in the first half of 2019 was Rs. 160,002,139 at the end of the first half of 2020 and this is a decrease of 54% compared to the previous year. This amounts to Rs. 42,075,029 at the end of the first half year 2021 that is a further 74% drop from the previous year. Although the absence of foreigners due to the Covid epidemic was the major factor, management had not taken steps to increase sales locally by adopting new pricing strategies to market products in the local market. Items will be priced up to the current year according to a pricing system decided in the year 2013 and management had not focused on revising the pricing mechanism to increase sales. Due to such carelessness in marketing tactics, provisions amounting Rs. 65,771,252 had to be obtained from the General Treasury for staff salaries and other expenses in the years 2020 and 2021.

(i) A sum of Rs. 30,793,923 had not been paid as at 31 December 2020 for eight showrooms due to non-payment of taxes due on government buildings for maintaining the showrooms owned by the Board. Further, an amount of Rs. 10,372,983 had not been paid to the Colombo Municipal Council as assessment tax for the buildings at Bauddhaloka Mawatha.

(j) As per the regulations of the Craftsmen's' Welfare Development Fund established in the year 1990, an amount of Rs. 5,023,891 accumulated in the fund, which was maintained namely Benevolent Fund for craftsmen's welfare, up to December 31,2020 had been deposited in a current account. Even though a Cabinet decision had been made to transfer this fund to the Crafts Council, and until now, without making that transfer, it was deposited in a fixed deposit account and remained idle without taking action to implement the fund's goals.

(k) An additional cost of Rs. 1,097,804 had to paid as at December 31,2020 as the the security deposit collected from the officials was not deposited in a savings account in the name of the relevant official, but instead an amount of Rs. 2,460,000 was deposited in the current account of the board, and the board calculated and paid the interest due to the relevant official.

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