

Contents	Page No
Corporate information	01
Branches/ Regional Office Net Work	02
Vision & Mission	03
Review of the performance	04 - 11
Board of Directors	12-14
Senior Management Team	15
 Financial Statements	
Statement of Financial Position	16
Statement Comprehensive Income	17
Statement of Cash Flow	18
Statement of Changes in Equity	19
Statement of Financial Position - Assets	20
Statement of Comprehensive Income – Revenue	21
Notes to the Financial Statements	22 - 28
Statement of Financial position – Assets	29
Statement of Comprehensive Income – Project	30
Notes to the Financial Statements – Project	31-32
Manufacturing Account - Project Division	33
Notes to the Financial Statements – Ape Gama	34
Statement of Financial Position Ape Gama	35
Statement of Profit or Loss - Ape Gama	36
Notes to the Financial Statements – Ape Gama	37-38
Account policies	39- 49
Statement of Financial Position Assets – Craft Training	50
Audit general’s Report	51-70

CORPORATE INFORMATION

NAME OF THE BOARD

Sri Lanka Handicrafts Board

LEGAL FORM

Statutory Board incorporated by National Crafts Council & Allied to Institutions Act No.35 of 1982

HEAD OFFICE

No.215, Baudhaloka Mawatha, Colombo 07.

Phone : 011 2055717 / 011 2055501

Fax : 011 2594872 / 011 2680928

E-Mail : info@laksala.gov.lk

Website : www.laksala.lk

SALES INQUIRIES

Phone : 011 2680925

E-Mail : info@laksala.gov.lk

AUDITORS

Auditor General's Department

BANKERS

Bank Of Ceylon

Peoples Bank SRI LANKA HANDICRAFTS BOARD

SHOWROOM NET WORK

1.Laksala Outlets		Telephone
2.Fort	No: 60, York Street, Colombo 01	0112323514
3.Thummulla	No.215, Bauddhaloka Mw, Thummulla, Colombo 07	0112580579/5846168
4.Kandy	No.05, Sangaraja Mw, Kandy	0812222087
5.Katubedda	No.282, Galle Road, Katubedda, Moratuwa	0112605600
6.Museum	Museum Gallery Café, National Museum Premises, Colombo 07	0112698263
7.Battaramulla	Janakala Kendraya, Pelawatta, Battaramulla	0112786026
8.Race Course	Mini Stand, Race Course Promenade, Reid Avenue, Colombo 07	0112677772
9.Welipenna 1	Welipenna Stopover, Southern Expressway, Service Area “A” Shop A4 & A5	0342241607/8
10.Welipenna 2	Welipenna Stopover, Southern Expressway, Service Area “B” Shop A5 & A6	0342241620/21
11.Galle	No.74/1, Galle Road, Galle	0912222783
12.Pinnawala	Elephant Orphanage, (At the Exit) Pinnawala	0352256015
13.Peradeniya	No.14, Botanical Garden, Peradeniya	0812389253/2389263
14.Katunayake	54D Departure Transit Area, Bandaranayake International Airport, Katunayake	0112260167
15.Wagolla	Pinnawala Zoological Garden, Rabukkana, Pinnawala	0352264755

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 Prime Objectives

- Seeing to the contentment of the consumer
- Making opportunities available for rural craftsman and entrepreneurs to bring forth innovative products strengthening the rural economy
- Affording opportunities for consumers to satiate their taste through diversification of products
- Ensuring customer value for their money by way of reliability and high end finish

Review of the Performance – Year 2015

Background

I am pleased to present the review of the performance of Laksala – Sri Lanka Handicrafts Board for the year 2015. Laksala was established in the year 1964 with the objective of opening up local as well as overseas market opportunities for the local handicraft manufacturers and it has been incorporated as the Sri Lanka Handicrafts Board under the National Crafts Council and Affiliated Institutions Act No. 35 of 1982. Laksala has by now become the oldest and largest sales network owned by the government in this sphere of activity.



New Trend

With Sri Lanka in the present context gaining recognition as an island conducive for tourism amidst the peaceful environment prevailing in the country, business activities of Laksala too have seen an upward trend. Under the large scale international propaganda and marketing campaigns set in motion by the Ministry of Tourism, the anticipated tourist arrivals during the year 2016 will shot up to the mark of 2.5 million and the market of the local gifts and souvenir items required by these tourists will concurrently see an expanded range thereby creating a more wider market opportunity for Laksala.

Strategic Approach

Through the restructuring process initiated during the year 2011, Laksala attracted an expanded clientele essential for achieving its turnover and profitability as well as for maintaining its consistent sustenance whilst further strengthening the measures taken towards its robust performance in tandem with the modern day requirements and demand. Such measures were as follows:

- Gaining ground on a new market towards category expansion of the Laksala items on sale.
- Establishing the name of the institution in the market through branding.
- Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasant customer service.
- Developing the system of purchasing Laksala items via internet through extended online sales facilities.
- Making arrangements to lure foreign tourists to Laksala Showrooms on regular basis in liaison with the institutions such as Sri Lanka Tourism Development Authority and Sri Lanka Tourism Promotion Bureau as well as with private sector institutions.

Range of all items marketed by Laksala Showrooms with the introduction under the brand name of “Laksala” will be further expanded and the steps necessary to make such items easily available as the most qualitative and exquisite gifts and souvenir items to both local and foreign travellers will also

see a further boost. Accordingly, the Laksala whilst putting on show a wide range of very high quality items of trendy fashions will strive to expand its marketing drive needed to make Laksala the sole and exclusive government entity and one of the best commercial institutions in the field of marketing of the gifts and souvenir items in Sri Lanka with the local as well as foreign consumers carrying with them fond memories of the institution and to keep them further attracted to Laksala bringing in an enhanced clientele base.

Establishing the name of the Institution in the market through branding

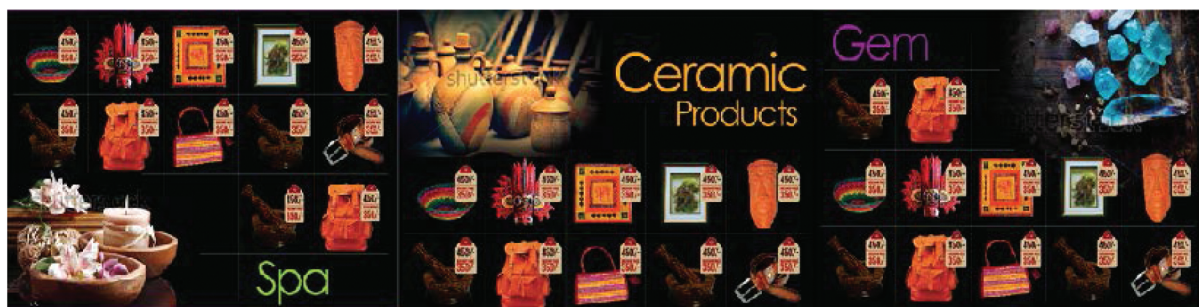
Laksala transformed its sales showrooms into very high quality outlets in keeping with the modern market trends. Accordingly measures were also set in motion to keep up the showcasing of the items at a very higher level and to achieve the anticipated sales targets through branding by bringing the showrooms of Laksala onto an elevated pedestal in such a manner as to make them attractive to consumers in refurbished outlets with the introduction of products under the brand name of “Laksala”.

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

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

Expansion of product categories

Under the new strategic measure, steps were taken towards expanding not only the activities of the institution but also the tasks involving the expansion of its category of trading products in collaboration with the National Designs Centre, National Crafts Council and other related institutions. Action was also taken to introduce to the market place innovative products following the manufacture of high quality new creations to cater to the present needs of the market safeguarding the identity of the local products whilst introducing items such as gems and jewellery, tea, spices, leather goods, ceramicware as well as masks in addition to other souvenir items. The New Creations Division of Laksala too endeavoured to launch a range of innovative products to the gifts and souvenir market sector by way of introducing an array of novel handicraft items.



Network of Supplies

The network of Laksala supplies through its showrooms encompasses the purchase of gifts and souvenir items meant to be sold, planning of its production line, quality control as well as provision of modern designs. Local handicraft manufacturers registered as 6000 or thereabout in the year 2014 have been increased further during this year and new marketing opportunities for new manufacturers to gain access into these fields were also made available.

Commencement and Opening up of new Laksala Sales Showrooms

Laksala during the year 2015 expanded its network of trading activities and worked towards achieving its sales targets by way of establishing a new showroom in the Wagolla Zoological Gardens in Pinnawala with all modern customer care facilities and also by developing the customer care facilities in the existing showrooms.

Staff Training and New

Training activities were geared up in a manner that develops the positive attitudes of the staff with a view to meeting the consumer requirements and the infrastructure facilities necessary for providing a customer service of its highest order at the international level were widened by way of imparting them knowledge in novel strategies of marketing.

Online Trading Facilities via Internet

During the year 2015 too, Laksala implemented its marketing methods more extensively in such a manner as to enable its customers world over to gain access into online internet trading facilities to purchase the items of their choice from anywhere in the world through electronic technology.

Results achieved

Even though the performance of Laksala during the year 2015 yielded a net profit situation amounting to Rs. 52,299,389/- before tax and financial costs, it turned out to be a loss of Rs. 21,453,145/- in the context of the financial expenditure incurred on the special capital projects.

The marketing activities of Laksala as described above were not only instrumental in achieving a profit (before financing and tax), but also went on to strengthen the economy of the local small and medium scale handicraft manufacturers supplying goods to our Board, resulting in the purchase of their creative items of production worth Rs. 324,263,233/- .

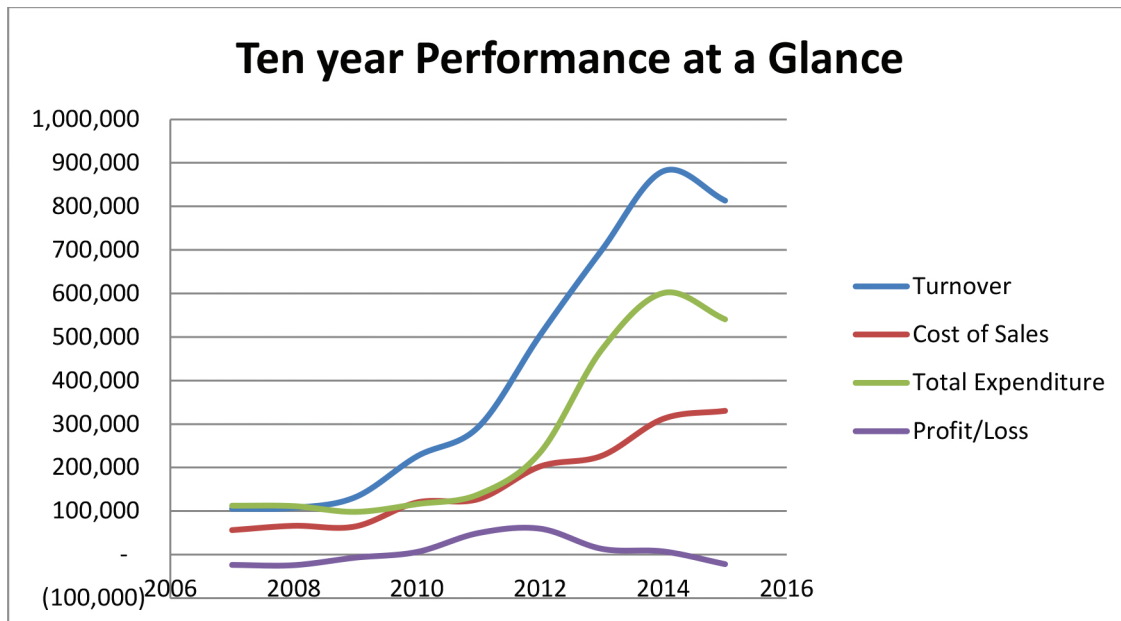
Sales Achievement

During under the year under review, Laksala recorded a total turnover of Rs.829 million whereas respective cost of sales was Rs. 330.5 millions. The below graph shows the showroom wise sales achievement for the year.

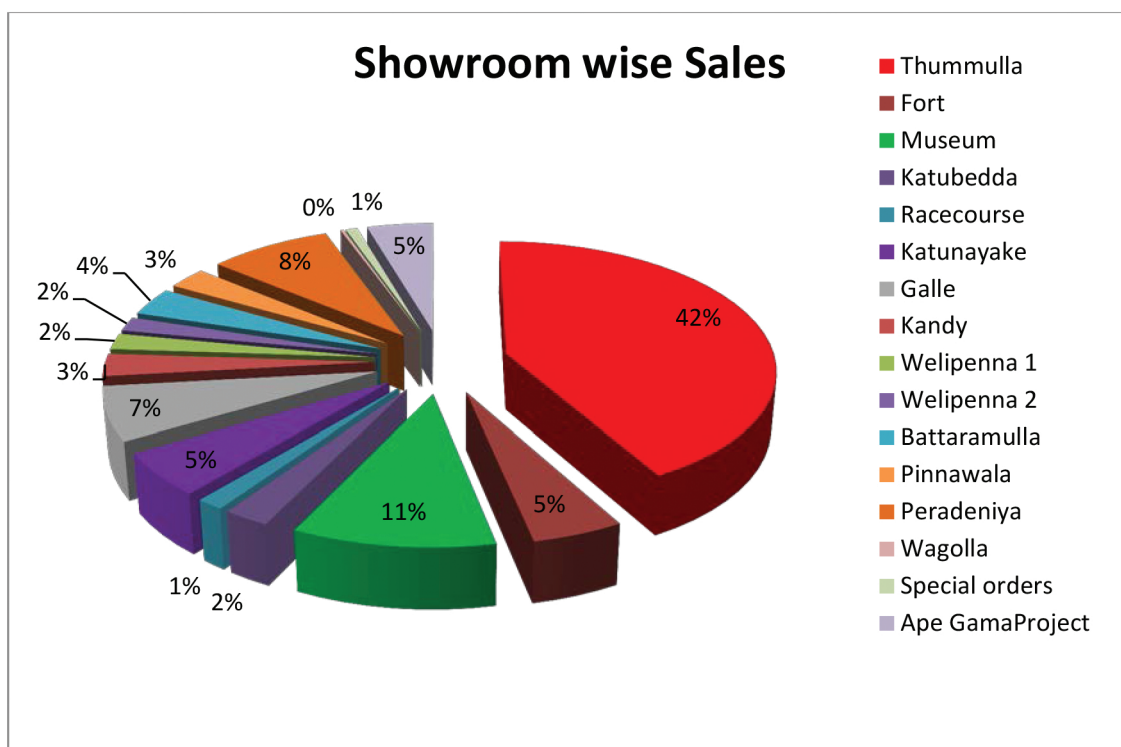
Operational Review

Financial Performance Summary

During under the year under review, Laksala recorded a total turnover of Rs.829 million whereas respective cost of sales was Rs. 330.5 millions. The below graph show the ten year operational summary of the Laksala.



During the year showroom sales were Rs.829 million and the main contributors were Thummulla showroom which was Rs. 347 million and 87.5 million from Museum showroom.

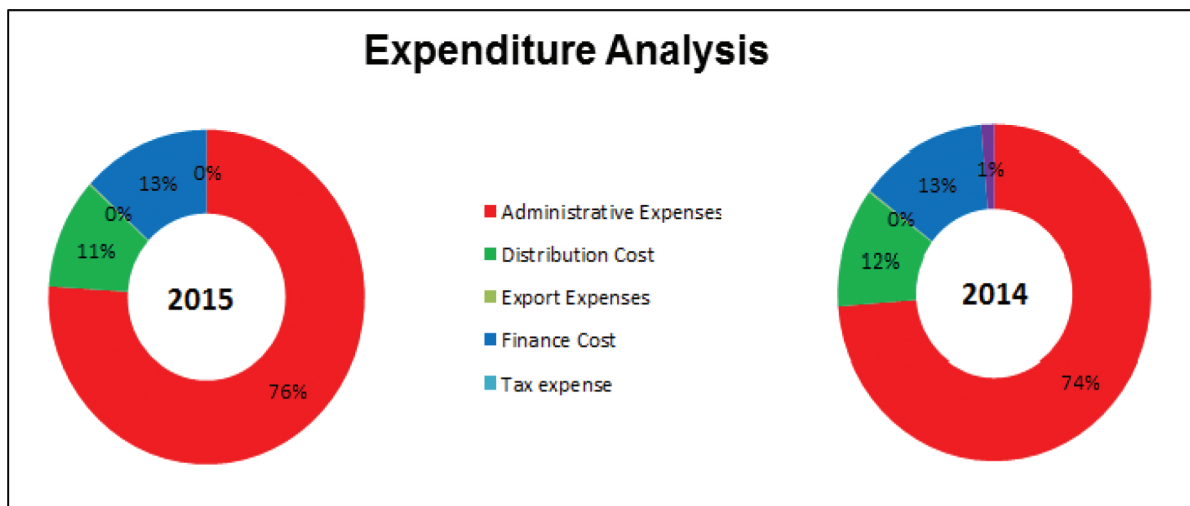


Expenditure Analysis

As a Cost reduction strategy during 2015 total expenditures have been reduced to Rs. 540 million which was 13% achievement compared with the previous year.

	2015	2014	%
Administrative Expenses	410,920	449,411	9%
Distribution Cost	57,797	69,945	21%
Export Expenses	820	1,077	31%
Finance Cost	71,039	80,622	13%
Tax expense	-	8,249	-
	540,576	609,307	13%

The below graphs shows the composition of total expenditure compared with the previous year.



Administration

The Sri Lanka Handicrafts Board – Laksala carried out its overall operational activities in conformity to the guidelines of the respective laws, government circulars and other financial and administrative directions and acted in accordance with the good governance and procurement perimeters. The Administration and Human Resource Division is committed to be responsible to the management for achieving goals and objectives of the organization as well as for the provision of the other support services. During the year under review the staff constituted 189 personnel, details of which are as follows:

Total Staff as at 31.12.2015

Executive Level	05	
Secondary Level	12	
Tertiary Level	63	
Preliminary Level	<u>07</u>	87
Staff on contract basis	102	<u>102</u>
Total		<u>189</u>

The staff strength during the year under review in comparison to the previous year has been decreased to 189 from 200.

Building up of a well-trained, committed and efficient work force has become a very vital aspect for the implementation of a properly drawn out short term, medium term and long term business plan in an environment of competitive trading. Therefore, measures have been taken to improve the quality and the productivity of the employees by implementing training and development programs for the sales staff as well as the support staff and also by introducing an attractive incentive payment scheme for them. Apart from this, the new organizational structure with overall cadre strength of 194 personnel has been met with the approval of the Department of Management Services. In addition, further instructions have been issued for maintaining the total staff strength comprising 40% of fixed employees and 60% of contract employees. As such, it is commendable that the institution was able to maintain a suitably qualified new staff for its sales division as well as the other divisions with less commitment and responsibility to the institution.

Our Gratitude

On behalf of Laksala, I first of all profusely thank His Excellency the President and the Hon. Prime Minister of the Democratic Socialist Republic of Sri Lanka, Hon. Minister of Botanical Gardens and Public Entertainment, Hon. Minister of Industry and Commerce and Hon. Minister of Rural Economy. And I also wish to extend my solemn gratitude to the members of the Board of Directors for making judgements and decisions that were incessantly required to elevate the institution into a higher pedestal.

Furthermore, I owe a debt of gratitude to the Secretary of the Ministry and other Ministry officials for extending us support for the progression of the institution in its hour of need.

In addition, I specifically thank the Heads of Divisions who manoeuvred the members of their staffs effectively on the marketing activities as well as all the other members of the staff for their contribution towards the upkeep of the institution.

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

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

Accordingly, it is expected to improve the sales of the institution by obtaining necessary expert services on marketing and sales activities in order to further develop the institutional yield in the year 2016.

Moreover, measures are also afoot to have the percentage of profit ratio of the institution increased in the year 2016 after having also lowered the overhead expenditure of the institution by a considerable percentage in a planned manner by way of garnering the contribution of the entire staff efficiently and effectively in a streamlined administration of physical and human resources of the institution.



Chairman

Board of Directors – 2015

Sri Lanka Handicrafts Board –Laksala

Board of Directors - 2015/01/01

No.	Name	Position
01	Mr.Anil Koswatta	Chairman
02	Mr.A.DamithKumarasinghe	Board Member
03	Mrs.G.M.IreshaUmayanganiBandara	Board Member
04	Mr.W.A.D.Rajapaksha	Board Member
05	Mr.RakithaShriDharashanaAbeygoonawardhana	Board Member
06	Mr.K.B.Shanthi Deva Herath	Board Member
07	Mr.UpaliGamage	Board Member
08	Mr.S.Deniyawatta	Observer
	Mrs.L.M.E.Perera	Board Secretary

Sri Lanka Handicrafts Board –Laksala

Board of Directors - 11/02/2015

No.	Name	Position
01	Mr.HasithaTillekerathna	Chairman
02	Mr.IssadeenRiyaz	Board Member
03	Mr.H.D.D.P.Karunaratne	Board Member
04	Mr.S.Subirdeen	Board Member
05	Mr.AbeethKavindaDangalla	Board Member
06	Mrs.L.M.E.Perera	Board Secretary

Sri Lanka Handicrafts Board –Laksala

Board of Directors - 26/05/2015

No.	Name	Position
01	Mr.AbeethKavindaDangalla	Chairman
02	Mr.H.D.D.P.Karunaratne	Board Member
03	Mr.KeerathiSurajithMawella	Board Member
04	Mr.D.M.RanjithBandara	Board Member
05	Mr.B.A.LalithWijesekara	Board Member
06	Mr.P.H.Ananda	Board Member
07	Mr.P.G.Jayasinghe	Board Member
	Mrs.L.M.E.Perera	Board Secretary

Sri Lanka Handicrafts Board –Laksala

Board of Directors - 05/11/2015

No.	Name	Position
01	Dr.S.M.M.Ismail	Chairman
02	Mr.KeerathiSurajithMawella	Board Member
03	Mr.D.M.RanjithBandara	Board Member
04	Mr.B.A.LalithWijesekara	Board Member
05	Mr.P.H.Ananda	Board Member
06	Mr.P.G.Jayasinghe	Board Member

Sri Lanka Handicrafts Board –Laksala

Present Board of Directors

No	Name	Position
01	Dr.S.M.M.Ismail	Chairman
02	Mr.R.A.L.Udaya Kumara	Board Member
03	Mr.K.P.H.Wijewardana	Board Member
04	Mr.Neel RavindraMunasinghe	Board Member
05	Mr.H.G.Dandeniya	Board Member
06	Mr.IssadeenRiyaz	Board Member
07	Mr.P.G.Rathnayaka	Advisor to the Board of Directors (Observer)

Sri Lanka Handicrafts Board –Laksala

Present Board of Directors

No	Name	Position
01	Dr.S.M.M.Ismail	Chairman
02	Mr.R.A.L.Udaya Kumara	Board Member
03	Mr.K.P.H.Wijewardana	Board Member
04	Mr.Neel RavindraMunasinghe	Board Member
05	Mr.H.G.Dandeniya	Board Member
06	Mr.IssadeenRiyaz	Board Member
07	Mr.P.G.Rathnayaka	Advisor to the Board of Directors (Observer)

Financial Statements

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION (LAKSALA + PROJECT + APE GAMA)

As at 31st December 2015

	2015 LKR	2014 LKR
ASSETS		
Property, Plant & Equipment	1,159,235,671	1,193,297,612
Non-current assets	1,159,235,671	1,193,297,612
Display/Antique Items	4,984,780	
Inventories	534,206,246	537,811,039
Trade Deb. & Other Receivables	135,697,121	156,203,978
Cash & Cash Equivalents	22,083,113	27,360,407
Current assets	696,971,260	721,375,424
Total assets	1,856,206,931	1,914,673,036
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Stated Capital	73,628,878	73,628,878
Capital Reserves	510,806	510,806
Revaluation Reserves	454,366,157	456,068,657
Grants Received	103,951,172	103,951,172
Prior Adjustment	(20,009,299)	
Profit & Loss	(48,017,748)	(26,179,482)
Total capital & reserves	564,429,967	607,980,031
Retirement Benefit Obligations	25,363,195	24,143,355
Deferred Tax Liabilities	42,901,745	26,731,698
Deferred Income	176,204,712	201,544,700
Loan	479,542,634	545,144,546
Non-current liabilities	724,012,287	797,564,299
Creditors and Accruals	451,971,036	346,319,029
B.O.C Loan - Short Term	110,177,581	152,945,098
Bank Overdraft	5,616,061	9,864,580
Current liabilities	567,764,678	509,128,707
Total equity & liabilities	1,856,206,931	1,914,673,036

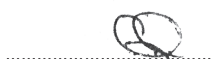


Mr. E.A. Delilkan
Director Finance(acting)

The Accounting policies and Notes form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. The Financial Statements were approved by the Board of Directors and signed on their behalf on 24th November 2016 at the Board meeting held in Laksala thunmulla.



Mr. M.N.M.A Ahlam
DG/Chief Executive Officer



Mr. K.P. Harsha Wijewardane
Board Director



Dr. S.M.M. Ismail
Chairman

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
COMPREHENSIVE INCOME (LAKSALA + PROJECT + APE GAMA)
For the year ended 31st December 2015

	2015 LKR	2014 LKR
Revenue	813,349,529	881,039,134
Less :- Cost of Sales	(330,350,841)	(312,167,197)
GROSS PROFIT/(LOSS)	482,998,688	568,871,937
Grants Received	25,340,000	25,340,000
Other Income	10,399,200	22,397,613
	518,737,888	616,609,550
<u>Less:- Expenditure</u>		
Administrative Expenses	(410,920,081)	(449,411,072)
Distribution Cost	(57,796,673)	(69,945,916)
Export Expenses	(820,340)	(1,077,430)
Operating Profit/ (Loss) Before Finance Expenses	49,200,795	96,175,132
Finance Cost	(71,039,061)	(80,622,521)
Net Profit/(Loss) Before Tax	(21,838,265)	15,552,611
Tax expense	-	(8,249,620)
Net Profit/(Loss) After Tax	(21,838,265)	7,302,991

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CASH FLOWS

For the year ended 31st December 2015

	2015 LKR	2014 LKR
CASH FLOWS FROM OPERATING ACTIVITIES		
NET PROFIT/LOSS AFTER TAX EXPENSES	(21,838,265)	12,208,721
ADJUSTED FOR		
DEPRECIATION	29,309,364	42,571,984
AMORTIZATION	25,478,642	
RETIREMENT BENEFIT OBLIGATIONS	1,219,840	
DEFERRED REVENUE RENT & REVALUATION	(25,339,988)	
OPERATING PROFIT/LOSS BEFORE WORKING CAPITAL CHANGES	8,829,593	49,874,974
CHANGES IN		
INVENTORIES	(1,379,987)	13,449,601
TRADE & OTHER RECEIVABLES	20,506,857	22,618,687
TRADE & OTHER PAYABLES	105,652,007	
GRATUITY	(417,585)	(74,526,653)
	133,190,885	11,416,609
CASH FLOW FROM INVESTING ACTIVITIES		
REALIZATION OF INVESTMENT	-	44,862,328
PURCHASE OF PROPERTY, PLANT & EQUIPMENT	(5,680,039)	(83,676,334)
NET.CASH FLOWS USED IN INVESTING ACTIVITIES	(5,680,039)	(38,814,006)
CASH FLOW FROM FINANCING ACTIVITIES		
REPAYMENT OF LONG TERM LOAN	(108,369,429)	
EQUITY	(1,702,500)	
TAX LIABILITY	(18,467,692)	46,137,374
NET.CASH FLOWS USED IN FINANCING ACTIVITIES	(128,539,621)	46,137,374
NET INCREASE/DECREASE IN CASH & CASH EQUIVALENTS	(1,028,775)	18,739,977
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	17,495,827	(1,244,151)
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	16,467,052	17,495,827
BANK OVERDRAFT	(5,616,061)	(9,864,580)
CASH IN HAND & AT BANK	22,083,113	27,360,407
	16,467,052	17,495,827

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
CHANGES IN EQUITY

For the year ended 31st December

	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATION RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	TOTAL LKR
BALANCE AS AT 1ST JANUARY 2014	73,628,878	510,806	456,068,657	103,951,172	(33,482,474)	600,677,039
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
CHANGES DURING THE YEAR						
PROFIT FOR THE YEAR 2014-LAKSALA					12,208,721	
PROFIT FOR THE YEAR 2014-PROJECT					1,375,241	
PROFIT FOR THE YEAR 2014-APE GAMA					(6,280,972)	
BALANCE AS AT 31ST DECEMBER 2014	73,628,878	510,806	456,068,657	103,951,172	(26,179,484)	607,980,029
BALANCE AS AT 1ST JANUARY 2015	73,628,878	510,806	456,068,657	103,951,172	(26,179,484)	607,980,029
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
CHANGES DURING THE YEAR						
PROFIT FOR THE YEAR 2015-LAKSALA	-	-	(1,702,500)	-	(19,107,723)	
PROFIT FOR THE YEAR 2015-PROJECT					(558,535)	
PROFIT FOR THE YEAR 2015-APE GAMA					(2,172,008)	
BALANCE AS AT 31ST DECEMBER 2015	73,628,878	510,806	454,366,157	103,951,172	(48,017,749)	584,439,264
PRIOR ADJUSTMENT					(20,009,299)	
BALANCE AS AT 31ST DECEMBER 2015 (After Prior Adjustment)	73,628,878	510,806	454,366,157	103,951,172	(68,027,047)	564,429,966

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION - LAKSALA
As at 31st December 2015

	Note	2015 LKR	2014 LKR
ASSETS			
Property, Plant & Equipment	07	1,065,617,568	1,103,205,564
Non-current assets		1,065,617,568	1,103,205,564
Display/Antique Items		4,984,780	
Inventories	08	533,410,154	536,941,393
Trade Debtors & Other Receivables	09	121,803,702	135,587,567
Cash & Cash Equivalents	10	20,072,708	27,130,271
Current assets		680,271,344	699,659,231
TOTAL ASSETS		1,745,888,912	1,802,864,795
EQUITY & LIABILITIES			
CAPITAL & RESERVES			
Stated Capital		73,628,878	73,628,878
Capital Reserves		510,806	510,806
Revaluation Reserves		433,201,333	434,903,833
Grants Received		62,000,000	62,000,000
Prior Adjustment		(20,009,299)	
Retained earning		(119,178)	18,988,545
Total capital & reserves		549,212,541	590,032,062
Retirement Benefit Obligations		25,363,195	24,143,355
Tax Liabilities		38,332,909	26,731,698
Deferred Income		176,204,712	201,544,701
Loan		479,542,634	545,144,546
Non-current liabilities		719,443,451	797,564,299
Creditors and Accruals	11	361,439,278	252,458,756
B.O.C Loan - Short Term		110,177,581	152,945,098
Bank Overdraft	12	5,616,061	9,864,580
Current liabilities		477,232,920	415,268,434
Total Equity & Liabilities		1,745,888,912	1,802,864,795

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
COMPREHENSIVE INCOME - LAKSALA
For the year ended 31st December

	9	Note	2015 LKR	2014 LKR
Revenue		01	778,378,722	823,392,392
Less :- Cost of Sales			(326,825,574)	(304,759,116)
GROSS PROFIT/(LOSS)			451,553,149	518,633,276
Grants Received			25,340,000	25,340,000
Other Income		02	6,681,035	16,945,313
			483,574,184	560,918,589
Less:- Expenditure				
Administrative Expenses		03	(373,557,946)	(398,303,091)
Distribution Expenses		04	(57,281,629)	(60,463,600)
Export Expenses		05	(820,340)	(1,077,430)
Operating Profit/ (Loss) Before Finance Expenses			51,914,269	101,074,467
Less :- Finance Costs		06	(71,021,992)	(80,616,126)
Net Profit/(Loss) Before Tax			(19,107,723)	20,458,341
Less:- Taxation			-	(8,249,620)
Net Profit/(Loss) After Tax			(19,107,723)	12,208,721

NOTE 01-SALES ANALYSIS**Laksala Branches**

	2015	2014
	LKR	LKR
Fort	39,739,696	51,579,688
Kandy	23,340,057	24,123,518
Galle	55,589,884	57,533,096
Thummulla	346,911,243	343,136,567
Katubadda	20,049,867	25,808,935
Katunayaka	44,555,010	38,094,616
Battaramulla	28,985,526	37,995,011
Racecourse	11,903,656	16,326,372
Welipenna - 1	16,495,523	16,344,671
Museum	87,540,114	104,381,280
K Zone	-	2,432,282
Pinnawala	22,282,023	22,512,999
Welipenna - 2	14,505,600	15,232,184
Peradeniya	69,721,731	66,297,160
Direct Sales-Special Orders	4,719,659	1,594,013
Wagolla	1,987,079	
	788,326,668	823,392,392
Less :- NBT	(7,958,357)	
ESC	(1,989,589)	
	778,378,722	823,392,392

NOTE 02-OTHER INCOME

	2015	2014
	LKR	LKR
Ape Gama		
Special Sales		1,227,946
Other Income	7,382,462	15,183,481
Circuit Reservation	124,319	128,886
Miscellaneous Income		405,000
	7,506,781	16,945,313
Less :- VAT	(825,746)	
	6,681,035	16,945,313

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 03-ADMINISTRATIVE EXPENSES	2015	2014
	LKR	LKR
Salaries & Allowance	83,536,027	74,830,569
Over Time	7,371,592	10,763,631
Consultancy Fees	1,305,000	52,750
Incentive	21,427,979	32,091,600
Bonus	500,000	3,982,038
E.P.F. & E.T.F.	11,354,205	8,750,668
Gratuity	1,637,426	3,096,886
Staff Welfare	9,538,075	12,201,686
Uniforms & ID	826,735	262,770
Travelling Allowance	12,984,971	10,340,750
Staff Training	332,588	491,268
Medical Expenses	1,309,155	1,846,186
Directors Fees & Board Meeting Expenses	258,400	1,296,017
Audit Fees/Proffesion Fees	320,000	300,000
Legal Fees	1,074,525	1,741,336
Advertisement	4,672,084	8,443,195
Security Service	22,349,452	26,427,156
Printing & Stationery	3,083,098	5,754,413
News Papers & Periodicals	2,037	39,787
Postage/Tele/Telex	15,549,479	14,267,821
Fuel & Lubricants	1,630,305	2,553,113
Stock Verification	192,695	740,447
Trade Licence Fees		544,784
Computer Expenses	2,767,745	3,769,535
Parking	187,200	906,943
Rent & Rates	43,620,559	39,025,067
Insurance	2,131,162	1,298,256
Water Bill	611,060	1,365,942
Electricity	27,551,838	31,852,563
Rep & Maint - Building	3,261,628	5,722,625
Rep & Maint - Machinery	1,521,840	1,495,742
Vehicle Rental Charges	16,231,672	21,571,377
Depreraiaton	28,997,636	22,909,533
Amotization- Building	22,960,904	22,309,538
Cleaning Services	9,155,073	11,596,589
VRS	1,165,560	1,654,846
Concession Fees	5,758,540	5,415,367
Opening Ceromany Expenses	6,358,320	6,483,080
Stamp Fees	21,381	107,220
	373,557,946	398,303,091

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 04-VARIABLE DISTRIBUTION COST

	2015	2014
	LKR	LKR
Guid Commission	31,932,951	22,082,948
Sponsorships & Donations	2,610,697	6,611,428
Packing Materials Locals	17,240,550	16,311,441
Business Promotion	1,436,167	10,500,522
Rep.& Main.Purchase Goods	101,715	357,918
Transport	3,959,550	4,599,344
	57,281,629	60,463,600

NOTE 05-EXPORT EXPENSES

	2015	2014
	LKR	LKR
Insurance & Freight Charges	764,240	976,719
Others	56,100	100,711
	820,340	1,077,430

NOTE 06-FINANCE COST

	2015	2014
	LKR	LKR
Overdraft Interest	-	2,052,044
Bank Charges	1,816,074	1,602,968
Loan Interest	69,205,918	6,961,114
	71,021,992	80,616,126

NOTES TO THE FINANCIAL STATEMENTS - LAKSALA									
NOTE 07-PROPERTY PLANT & EQUIPMENT									
	Land	Buildings	Plant & machinery	Furniture fittings & office equipment	Computer Hardware Software	Inventory Article	Capital work-in progress	Lease Building	Total
Cost or Deemed Cost	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance at 1 January 2014	395,520,000	156,802,577	73,672,443	50,909,493	23,886,909	21,864,344	66,629,979	666,662	789,952,407
Additions/Revaluation		40,576,334	7,945,433	6,038,664	3,724,354	1,707,811			59,992,596
Disposals							(21,178,589)		(21,178,589)
Balance at 31 December 2014	395,520,000	197,378,910	81,617,876	56,948,157	27,611,263	23,572,155	45,451,390	666,662	828,766,414
Balance at 1 January 2015	395,520,000	197,378,910	81,617,876	56,948,157	27,611,263	23,572,155	45,451,390	666,662	828,766,414
Additions/Revaluation			1,295,935	1,635,829	1,501,617	1,246,659			5,680,039
Balance at 31 December 2015	395,520,000	197,378,910	82,913,811	58,583,986	29,112,879	24,818,814	45,451,390	666,662	834,446,453
Depreciation	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance at 1 January 2014		3,591,093	14,010,765	5,543,924	5,930,127	3,256,533			32,332,442
Charge for the year		4,789,567	6,122,026	4,720,709	3,699,652	3,577,579			22,909,533
Balance at 31 December 2014	0	8,380,660	20,132,791	10,264,633	9,629,779	6,834,112			55,241,975
Balance at 1 January 2015	0	8,380,660	20,132,791	10,264,633	9,629,779	6,834,112	0	0	55,241,975
Charge for the year		9,316,871	7,016,096	6,702,836	7,584,086	1,267,620			31,887,509
Balance at 31 December 2015	0	17,697,531	27,148,887	16,967,469	17,213,865	8,101,732			87,129,484
Carrying Amounts	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
At 1 January 2014	395,520,000	156,802,577	73,672,443	50,909,493	23,886,909	21,864,344	66,629,979	666,662	789,952,407
At 31 December 2014	395,520,000	188,998,250	61,485,085	46,683,524	17,981,484	16,738,043	45,451,390	666,662	773,524,439
At 1 January 2015	395,520,000	188,998,250	61,485,085	46,683,524	17,981,484	16,738,043	45,451,390	666,662	773,524,439
At 31 December 2015	395,520,000	179,681,379	55,764,925	41,616,517	11,899,014	16,717,082	45,451,390	666,662	747,316,969
Development of Building									376,099,550
Amortization									(57,798,950)
									1,065,617,569

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 08-STOCKS

	2015	2014
	Rs:	Rs:
Fort	24,119,213	21,171,901
kandy	9,599,497	9,822,023
Galle	31,003,829	25,842,625
Battaramulla	23,558,587	57,567,049
Thummulla	156,269,517	150,845,343
Katubadda	13,870,735	15,252,732
Katunayaka	14,789,657	13,371,627
Race Course	21,000,536	22,625,700
Main Warehouse-Katubedda	9,302,195	5,529,841
Museum	146,144,000	148,403,088
Welipenna 1	8,998,697	11,121,343
Welipenna 2	7,455,396	9,469,437
Negative Inventory	6,773,995	
Peradeniya	23,317,706	17,183,834
Pinnawala	8,575,252	8,213,926
Norris Canal w/house	20,617,942	15,939,775
Katubedda w/h Repair Items	610,863	292,016
Norris Canal w/house Repair Items	3,880,591	2,294,793
Piinawala-Wagolla	4,033,296	2,884,554
New Design Center	707,750	351,750
Thummulla W/H	7,788,043	7,824,043
Supplier Return W/H-Norris	821,521	164,758
Intransit	2,456,985	2,809,628
Product Development	114,048	94,048
Special Order W/H	313,670	285,298
Damages & Shortages	(12,713,367)	(12,419,738)
	533,410,154	536,941,393

NOTE 09-TRADE DEBTORS,DEPOSITS & PREPAYMENTS

	2015	2014
	Rs:	Rs:
Trade Debtors	12,474,154	12,733,484
Receivable Credit Card	3,271,916	2,365,590
Festival Loans	269,800	154,800
Staff Loan	870,342	1,374,175
Receivable Rent	1,133,557	2,444,304
Security Deposit (Parking)	1,799,424	1,799,424
Prepayment	9,231,368	18,419,527
Purchase Advance Non Merchandise	8,713,574	6,401,918
Damages or Repair/Stock Variance	18,417,252	12,419,738
Retention Money	500,000	
Project C/A	28,382,540	28,053,716
Ape Gama C/A	25,660,481	38,047,822
Refundable Deposit	8,568,982	8,568,982
W. & O.P	77,993	77,993
Bank Guarantee	2,432,321	2,726,095
	121,803,702	135,587,567

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 10- CASH & CASH EQUIVALENTS

	2015	2014
	Rs:	Rs:
Petty Cash/ Supplier Renewal Imprest	252,978	-
BOC Taprobane - 2026526	2,332,049	1,401,005
P/B Kandy - 003-1001-1-1199647	1,220,414	1,341,285
P/B Galle - 013-1001-9-1924484	762,108	523,936
Cash at Bank - N'Elia	969	1,719
BOC Corporate - 2026591	4,531,405	-
P/B Thimbirigasyaya - 086-1001-4-1189760	74,471	938,606
P/B Battaramulla - 208-1001-2-0387264	9,600	177,240
P/B International div. - 004-1001-7-0210930	28,041	25,041
BOC Taprobane - 2026716	560,684	14,803,287
P/B Katunayaka - 004-1001-1-0210872	962,691	238,635
P/B First City - 046-1001-3-0000646	33,745	3,136,140
P/B First City - 046-1001-8-0000644	292,875	420,180
P/B - Molagoda	27,593	27,593
BOC Taprobane \$ - 72065536	193,688	600,262
P/B First City - 046-1001-5-0000645	633,951	594,583
P/B First City - 046-1001-7-0000649	418,434	
P/B Moragalle - 084-1001-0-1864127	1,257,042	571,656
P/B Taplace - 004-1001-5-0210870	-	145,161
BOC Corporate- 2758815	4,060,881	-
Cash in Hand - Fort	146,399.00	214,072
Cash in Hand - Kandy	111,850.00	151,630
Cash in Hand - Galle	149,690.00	133,061
Cash in Hand - Race Course	10,600.00	102,300
Cash in Hand - Katunayaka	126,791.35	120,373
Cash in Hand - Thummulla	758,131.00	687,666
Cash in Hand - Battaramulla	224,385.00	63,510
Cash in Hand - Katubadda	167,100.00	105,080
Cash in Hand - Welipanna 1	87,058.00	
Cash in Hand - Welipanna 2	28,210.00	254,813
Cash in Hand -Museum	73,900.00	137,010
Cash in Hand -Pinnawala	70,306.00	39,008
Cash in Hand -Peradeniya	463,950.54	175,420
Cash in Hand -Pinnawala Zoo	720.00	-
	20,072,708.03	27,130,270

NOTES TO THE FINANCIAL STATEMENTS -LAKSALA

NOTE 11-CREDITORS & ACCRUALS

	2015	2014
	Rs:	Rs:
Ministry of T&R Ind.Development	6,571,317	6,571,317
Trade Creditors	301,153,618	193,975,264
Accrued Charges	29,477,991	22,795,973
Other Creditors	14,265,139	23,311,202
Refundable Tender Deposit & Other Deposit	812,000	805,000
Staff Creditors	4,159,213	-
Benevolant Fund	5,000,000	5,000,000
	361,439,278	252,458,756

NOTE 12-BANK OVERDRAFT

	2015	2014
	Rs:	Rs:
P/B First City - 046-1003-6-0387264	4,629,949	3,463,740
BOC Corporate - 2758815	-	4,037,709
BOC Corporate - 2026591	-	2,363,131
P/B Taplace - 004-1001-5-0210870	986,112	-
	5,616,061	9,864,580

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION - PROJECT

As at 31st December 2015

	Note	2015 LKR	2014 LKR
ASSETS			
Property, Plant & Equipment		63,037,977	63,037,977
Non-current assets		63,037,977	63,037,977
Inventory	06	796,092	733,583
Trade Debtors & Other Receivables	07	13,910,369	15,867,891
Cash & Cash Equivalents	08	2,010,405	230,137
Current assets		16,716,866	16,831,611
TOTAL ASSETS		79,754,843	79,869,588
EQUITY & LIABILITIES			
CAPITAL & RESERVES			
Revaluation Reserve		21,164,824	21,164,824
Grants Received		41,951,172	41,951,172
Retained earning		(39,445,590)	(38,887,055)
Total capital & reserves		23,670,406	24,228,941
Other Creditors		2,035,135	2,035,135
Non-current liabilities		2,035,135	2,035,135
Creditors and Accruals	09	54,049,302	53,605,512
Current liabilities		54,049,302	53,605,512
TOTAL EQUITY & LIABILITIES		79,754,843	79,869,588

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
COMPREHENSIVE INCOME - PROJECT
For the year ended 31st December 2015

	Note	2015 LKR	2014 LKR
Revenue		4,394,746	9,223,948
Less :- Cost of Sales	02	(3,525,267)	(7,408,081)
GROSS PROFIT/(LOSS)		869,480	1,815,867
Other Income		3,718,165	5,452,300
<u>Less:- Expenditure</u>			
Administrative Expenses	03	(4,917,705)	(5,399,318)
Distribution Costs	04	(211,405)	(487,213)
<u>Operating Profit/ (Loss) Before Finance Expenses</u>		(541,466)	1,381,636
Less :- Finance Costs	05	(17,069)	(6,395)
Net Profit/(Loss) Before Tax		(558,535)	1,375,241
Less:- Taxation		-	-
Net Profit/(Loss) After Tax		(558,535)	1,375,241

NOTES TO THE FINANCIAL STATEMENTS - PROJECT

NOTE 02-COST OF SALES

	2015 LKR	2014 LKR
Stock as at 01-01-2015	360,800	1,222,888
Add: Good Transfers	3,495,739	6,545,993
	3,856,539	7,768,881
Less: Stock as at 31-12-2015	(331,272)	(360,800)
	3,525,267	7,408,081

NOTE 03-ADMINISTRATIVE EXPENSES

Salaries & Allowances	2,034,756	2,462,857
Incentive & Overtime	85,000	199,359
E.P.F & E.T.F	230,571	331,082
Electricity	62,951	156,796
Postal Charges		11,010
Water	58,188	25,780
Staff Welfare	103,934	101,751
Security	1,821,540	1,516,079
Postage & Telephone	30,058	12,741
Medical	25,891	120,516
Printing	30,816	53,935
Rent & Rates		9,000
Transport	144,000	81,000
Cleaning	290,000	316,992
Others		420
	4,917,706	5,399,318

NOTE 04-DISTRIBUTION COST

Fuel & Lubricants		34,485
R/M - Machinery		205,620
R/M - Building	34,278	247,108
Travelling	177,127	487,213
	211,405	

NOTE 05-FINANCE COST

Bank Charges	17,069	6,395
	17,069	6,395

NATURE OF EXPENSE/INCOME	OWNERSHIP	BASIS	PERIOD
Renovation	Owned	Amortize the cost incurred over a period of 10 Years	10 Yrs
Construction	Owned	Capitalization of cost of construction & normal depreciation will be charged at 2.5%.	40 Yrs
	Leased	Cost of construction /renovation amortized over the period of the lease or 10 years period whichever is less.	10 Yrs
	Occupied	Neither owned nor leased – Capitalize the cost of construction & amortize over a period of 10 years	10 Yrs
Grants Received	-	Grants received to meet the renovation & construction expenses should be amortized over a period of 10 years	10 Yrs

SRI LANKA HANDICRAFTS BOARD
Manufacturing Account - Project Division
For the year ended 31st December 2015

	Note	2015 LKR	2014 LKR
RAW MATERIALS			
Stock as at 01/01/2015		344,783	1,619,942
Purchases		855,494	976,535
		1,200,277	2,596,477
Less			
Stock as at 31/12/2015		(464,820)	(344,783)
		735,457	2,251,694
ADD			
Direct Expenses		757,425	753,315
Prime Cost		1,492,882	3,005,009
ADD			
Factory Overheads	01	1,974,857	2,542,984
		3,467,739	5,547,993
Add:WIP as at 01/01/2015		28,000	1,026,000
Less:WIP at at 31/12/2015		-	(28,000)
		3,495,739	6,545,993

NOTES TO THE FINANCIAL STATEMENTS -PROJECT

NOTE 01-FACTORY OVERHEAD	2015	2014
	LKR	LKR
Salary	1,356,504	1,641,905
E.P.F & E.T.F	153,715	220,725
Electricity	94,428	235,193
Repair & Main. -Machinery		
-Goods	28,000	
Incentive		132,906
Water	38,793	17,188
Staff Welfare	69,290	67,834
Postage & Telephone	20,042	8,494
Transport	96,000	54,000
Travelling	118,085	164,739
	1,974,857	2,542,984

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION - APE GAMA
As at 31st December 2014

	Note	2015 LKR	2014 LKR
ASSETS			
Property, Plant & Equipment		30,580,126	27,054,071
Non-current assets		30,580,126	27,054,071
Inventories	01		136,063
Trade Deb. & Other Receivables	02	(16,950)	4,748,520
Current assets		(16,950)	4,884,583
Total assets		30,563,176	31,938,654
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Retained earning		(8,452,980)	(6,280,972)
Total capital & reserves		(8,452,980)	(6,280,972)
Tax Liabilities		4,568,836	
Non-current liabilities		4,568,836	-
Creditors and Accruals	03	34,447,321	38,219,626
Current liabilities		34,447,321	38,219,626
Total equity & liabilities		30,563,177	31,938,654

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
PROFIT OR LOSS - APE GAMA
For the year ended 31st December 2015

	Note	2015 LKR	2014 LKR
Revenue	04	30,576,061	48,422,794
Cost of Sales		-	-
GROSS PROFIT/(LOSS)		30,576,061	48,422,794
Other Income			
		30,576,061	48,422,794
Administrative Expenses	05	(32,444,429)	(45,708,663)
Distribution Cost	06	(303,639)	(8,995,103)
Result from operating activities		(2,172,008)	(6,280,972)
profit before tax		(2,172,008)	(6,280,972)
Tax expense		-	-
Profit/Loss for the year		(2,172,008)	(6,280,972)

NOTES TO THE FINANCIAL STATEMENTS - APE GAMA

NOTE 01 -STOCKS

	2015	2014
	LKR	LKR
Inventory		136,063
	0	136,063

NOTE 02-TRADE DEBTORS,DEPOSITS & PREPAYMENTS

	2015	2014
	LKR	LKR
Prepayment		4,735,680
Purchase Advance Non Merchandise	(16,950)	12,840
	(16,950)	4,748,520

NOTE 03 -CREDITORS & ACCRUALS

	2015	2014
	LKR	LKR
H/O C/A	25,660,481	38,047,822
Retention a/c	291,476	171,805
Creditors	8,495,364	
	34,447,321	38,219,626

NOTES TO THE FINANCIAL STATEMENTS - APE GAMA

NOTE 04- INCOME

	2015	2014
	LKR	LKR
Ticket Income	17,566,154	38,693,157
Hall Renting Income	17,578,742	9,093,235
Other Income		636,402
	35,144,896	48,422,794
LESS :- NBT	(702,898)	-
:- VAT	(3,865,938)	-
	30,576,061	48,422,794

NOTE 05-ADMINISTRATIVE EXPENSES

	2015	2014
	LKR	LKR
Salaries & Allowance	2,880,399	2,055,325
Over Time	289,406	444,757
Incentive	242,435	326,437
E.P.F. & E.T.F.	280,392	179,318
Staff Welfare	771,780	631,626
Uniforms & ID	31,200	
Travelling Allowance	787,302	390,000
Medical Expenses	4,827	13,455
Advertisement		354,886
Security Service	3,037,240	6,333,063
Printing & Stationery	40,573	83,340
Postage/Tele/Telex	118,683	57,830
Fuel & Lubricants	176,790	145,593
Insurance		143,159
Water Bill	1,642,562	1,760,707
Electricity	939,488	386,314
Rep & Maint - Building	3,067,323	2,040,967
Rep & Maint - Machinery	2,035,401	1,975,776
Deperciaton	311,728	931,227
Amotization- Building	2,517,738	1,035,423
Cleaning Services	4,651,726	7,704,146
Openning Ceromany Expenses	4,735,680	4,799,860
Ape Gama Other Events	68,146	1,544,150
Event Management	3,780,310	12,371,304
Leagle Fees	33,300	
	32,444,429	45,708,663

NOTE 06-VARIABLE DISTRIBUTION COST

	2015	2014
	LKR	LKR
Business Promotion		150,000
Transport	303,639	453,103
Cultural Event Perppormance		8,392,000
	303,639	8,995,103

NOTES TO THE FINANCIAL STATEMENTS CONTD...

1. CORPORATE INFORMATION

1.0 Company

Sri Lanka Handicrafts Board 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 the Board are marketing and selling of gift and souvenir Items.

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 31st December 2015 and for the year ended, have been prepared in compliance with SLAS. The Financial Statements are prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements. 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 SLAS (Sri Lanka Accounting Standards) 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.

SRI LANKA HANDICRAFTS BOARD

STATEMENT OF

CHANGES IN EQUITY

For the year ended 31st December

	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATION RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	TOTAL LKR
BALANCE AS AT 1ST JANUARY 2014	73,628,878	510,806	456,068,657	103,951,172	(33,482,474)	600,677,039
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
CHANGES DURING THE YEAR						
PROFIT FOR THE YEAR 2014-LAKSALA					12,208,721	
PROFIT FOR THE YEAR 2014-PROJECT					1,375,241	
PROFIT FOR THE YEAR 2014-APE GAMA					(6,280,972)	
BALANCE AS AT 31ST DECEMBER 2014	73,628,878	510,806	456,068,657	103,951,172	(26,179,484)	607,980,029
BALANCE AS AT 1ST JANUARY 2015	73,628,878	510,806	456,068,657	103,951,172	(26,179,484)	607,980,029
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
CHANGES DURING THE YEAR						
PROFIT FOR THE YEAR 2015-LAKSALA	-	-	(1,702,500)	-	(19,107,723)	
PROFIT FOR THE YEAR 2015-PROJECT					(558,535)	
PROFIT FOR THE YEAR 2015-APE GAMA					(2,172,008)	
BALANCE AS AT 31ST DECEMBER 2015	73,628,878	510,806	454,366,157	103,951,172	(48,017,749)	584,439,264
PRIOR ADJUSTMENT					(20,009,299)	
BALANCE AS AT 31ST DECEMBER 2015 (After Prior Adjustment)	73,628,878	510,806	454,366,157	103,951,172	(68,027,047)	564,429,966

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 Foreign Currency Transactions

Transactions in foreign currencies are translated 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 translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date.

2.4.2 Property, Plant and Equipment

a) Recognition and Measurement

Property Plant and Equipment other than land are stated at cost less accumulated depreciation and accumulated impairment losses. 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.

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 net within "Other Operating Income" in the Income Statement.

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 the Board, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

a) Basis of Recognition

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

b) Subsequent Expenditure

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

c) Retirement and Disposal

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

d) Amortization

Amortization is recognized in the income Statement on a straight-line basis over the estimated useful lives of intangible Assets, from the date that they are available for use. A policy was developed to amortize or charge the cost incurred on renovation or construction on the basis of the following criteria.

NATURE OF EXPENSE/INCOME	OWNERSHIP	BASIS	PERIOD
Renovation	Owned	Amortize the cost incurred over a period of 10 Years	10 Yrs
Construction	Owned	Capitalization of cost of construction & normal depreciation will be charged at 2.5%.	40 Yrs
	Leased	Cost of construction /renovation amortized over the period of the lease or 10 years period whichever is less.	10 Yrs
	Occupied	Neither owned nor leased – Capitalize the cost of construction & amortize over a period of 10 years	10 Yrs
Grants Received	-	Grants received to meet the renovation & construction expenses should be amortized over a period of 10 years	10 Yrs

Table (A)

AMORTIZATION OF RENOVATION EXPENSES AND CONSTRUCTION EXPENSES

SITE	YEAR	NATURE OF EXPENDITURE	COST(LKR)	UNAMORTIZED BALANCE C/F 01/01/14	BASIS	AMORTIZATION CHARGE	UNAMORTIZED BALANCE C/F
MUSEUM	2013	CONSTRUCTIONS	172,847,765.42	155,468,924.12			
	2014		1,881,295.16				
	2015		389,177.00				
TOTAL			175,118,237.58		5%	8,755,911.88	146,713,012.24
BATTARAMULLA	2013	CONSTRUCTIONS	117,704,905.75	105,578,426.58			
	2014		7,119,771.92				
	2015		9,744,207.82				
TOTAL			134,568,885.49		5%	6,728,444.27	98,849,982.31
PINNAWALA	2013	RENOVATION	10,086,000.00	8,068,800.00			
TOTAL			10,086,000.00		10%	1,008,600.00	7,060,200.00
WAGOLLA		RENOVATION		729,439.02			
	2014		810,487.80				
TOTAL			810,487.80		10%	81,048.78	648,390.24
PERADENIYA	2013	RENOVATION	31,657,966.00	24,429,537.48			
	2014		8,968,353.20				
	2015		677,220.25				
TOTAL			41,303,539.45		10%	4,130,353.95	20,299,183.54
WELIPANNA	2013	RENOVATION	10,269,019.54	8,215,214.00			
	2014						
TOTAL			10,269,019.54		10%	1,026,901.95	7,188,312.05
RACE COURSE	2013	RENOVATION	1,113,613.46	890,889.80			
	2014						
TOTAL			1,113,613.46		10%	111,361.35	779,528.45
KATUNAYAKE	2013	RENOVATION	1,060,000.00	848,000.00			
	2014						
TOTAL			1,060,000.00		10%	106,000.00	742,000.00
UNAWATUNA	2013	RENOVATION	1,000,000.00	800,000.00			
	2014						
TOTAL			1,000,000.00		10%	100,000.00	700,000.00
K-ZONE	2013	RENOVATION	8,353,071.63	6,682,457.31			
					10%	835,307.16	5,847,150.15
THUNMULLA	2015	RENOVATION	769,766.50				
TOTAL			769,766.50		10%	76,976.65	692,789.85
			376,099,549.82			22,960,905.99	289,520,548.82

APE GAMA		CONSTRUCTIONS					
	2014		20,708,451.19	19,673,028.63			
	2015		4,468,931.45				
TOTAL			25,177,382.64		5%	1,258,869.13	18,414,159.50

401,276,932.46

24,219,775.12	307,934,708.32
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2.4.5 Impairment

The carrying amounts of the board'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 and other receivables are stated at the amount estimated to be realized. Provision has been made in the Financial Statements for bad and doubtful debts.

2.4.7 Inventories

Inventories are valued at the lower of cost and net realizable value, after making provision for obsolete and repairable items. Net realizable value is the price at which inventories can be sold in the ordinary course of business. Damaged stock and repair stock are shown under stock schedule.

Damaged stocks need careful identification of repairable & un-saleable items. A committee has been appointed for these purposes. Until the committee segregate the un-saleable items & determine the value the damaged items are stated at cost price.

Due to large volumes of art & craft & gift ware items handled during a year, damages or shortages cannot be ruled out. Therefore in order to minimize the losses on damages & shortages a policy has been developed in order to decide the quantum of allowable damages or shortages from the saleable stocks. Accordingly a provision will be created based on the value of the stocks to meet any contingencies arising out of damages & shortages.

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 Statements

The Cash Flow Statements have been prepared using the indirect method in accordance with Sri Lanka Accounting Standard No. SLPSAS 02 – Cash flow statements.

2.4.10 Employee Benefits

a) Defined Benefit Plan – Retirement Gratuity

The liability for Retirement benefit obligation under the payment of Gratuity Act. No. 12 of 1983 is a defined benefit plan covering 188 employees of the organization. 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 in 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 income statement.

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. The Board contributes 12% and 3% on gross employments of employees to Employee's Provident fund and Employee's Trust Fund respectively.

2.4.11 Loans – Long term/ Short term

a) Bank of Ceylon – Rs. 365 M

Rs.100 M facility to meet the supplier payments on revolving credit basis and Rs.300 M to finance the working capital requirements to meet construction expenditure and supplier payments was obtained from the Bank of Ceylon mortgaging the Fort building valued at Rs.497M.

b) Regional Development Bank- Rs. 210 M

Rs. 210 M facility was obtained from the Rural Development Bank, Kelaniya branch to meet urgent working capital requirements. No security was offered by us as General Treasury has arranged the loan facility.

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 and other payables are stated at their cost.

2.4.13 Revenue Recognition

* 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 & Loss from Sale 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 sales, occurs and is classified as other Operating Income.

* Capital Grant Received

Capital Grants received have been recognized as differed Income and amortized over a period of 10 years.

Rs.100,000,000 was received from the Ministry of Economic Development , under Divi Naguma program to reconstruct and refurbishment of the Museum Sales Complex in the year 2012 and Rs.107,262,626/= was received from the General Treasury under the National budget proposal in the year 2013. A further Rs.46,137,374/= was received in the year 2014.

The grants received during the year under review have been accounted as follows:

AMORTIZATION OF GRANTS RECEIVED

RECEIVED FROM	YEAR	GRANT RECEIVED	AMORTIZED AMOUNT @ 1/1/2015	INCOME FOR 2015	UNAMORTIZED BALANCE C/F
ECONOMIC DEVELOPMENT	2012	100,000,000	70,000,000	10,000,000	60,000,000
MINISTRY	2013	36,000,000	28,800,000	3,600,000	25,200,000
BUDGET ALLOCATIONS	2013	10,224,643	8,179,714	1,022,464	7,157,250
BUDGET ALLOCATIONS	2013	42,109,637	37,898,673	4,210,964	33,687,709
BUDGET ALLOCATIONS	2013	11,099,920	8,879,936	1,109,992	7,769,944
BUDGET ALLOCATIONS	2013	7,828,426	6,262,741	782,843	5,479,898
ECONOMIC DEVELOPMENT	2014	35,000,000	31,500,000	3,500,000	28,000,000
BUDGET ALLOCATIONS	2014	11,137,374	10,023,637	1,113,737	8,909,900
		253,400,000	201,544,701	25,340,000	176,204,701

2.4.14 Expense Recognition

a) Revenue 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.

For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence this presentation method is adopted.

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 revenue expenditure

1) Amortization of re-launching expenses

Re-launching of sales outlets after renovating and construction work has cost large sums due to various expenditure items included in it. Further newly constructed sales outlets also launched spending considerable amount. During the under review 5 sales outlets were launched incurring Rs.19,057,882/=. A policy was adopted to recognize the expenditure in the financial statements amortizing the cost incurred over a period of 3 years. The un-amortized balance recognized in the financial statements as deferred revenue expenditure.

LOCATION	COST	CHANGED PREVIOUS	CHARGE FOR YEAR	BALANCE
		YEAR	3/3	REVENUE EXP.
	(RS.)	(RS.)	(RS.)	(RS.)
MUSEUM	10,423,953	6,949,302	3,474,651	-
BATTARAMULLA	6,795,454	4,530,303	2,265,151	-
GALLE	1,241,170	827,447	413,723	-
PERADENIYA	297,305	198,203	99,102	-
WELIPANNA	300,000	200,000	100,000	-
	19,057,882	12,705,255	6,352,627	-
PINNAWALA	-	130,453	-	-
(DIRECTLY CHARGED FOR 2014)				
	19,057,882	12,835,708	6,352,627	-

2) Cost incurred on VRS

During the under review as part of the re-structuring process, 20 employees opted for VRS offered under the PED 10 and Rs. 10,432,332.25 have 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. The unamortized balance remains as deferred revenue expenditure. The amount amortized and the unamortized balance is comprised as follows.

	RS.
TOTAL COST INCURRED	10,432,332
LESS AMORTIZED PREVIOUS YEAR(AS AT 31/12/2014)	10,432,332
OPENING BALANCE AS AT 01/01/2014	-
LESS AMORTIZED DURING THE YEAR	-
	-

2.4.15 Taxation

Income Tax Expenses

Income tax expenses for the year comprise of current and deferred tax. Income tax is recognized in the Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

2.4.16 Borrowing costs

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

2.4.17 Comparative information

Comparative information has been reclassified where necessary to confirm to the current year's presentation.

2.4.18 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.

2.4.19 Events Occurring After the Balance Sheet Date

All material post Balance Sheet events have been considered disclosed and adjusted where applicable

2.5 Craft Training division

The activities of the Craft Training Division have been ceased with effect from the year 2009 as all the staff have been transferred and almost all the available physical assets have been handed over to the National Crafts Council in terms of the Cabinet decision dated 21/12/2008.

However, the balances remaining in the books as at that date have not been removed or transferred from the books and remain unsettled. Action has now been taken to settle these balances with the approval of the General Treasury until the formal approval is obtained and the remaining balances are disclosed with the financial statements as a separate entity. Comparative figures relating to these items have been adjusted accordingly. Please refer page no. (Craft Training Division).

Balances remaining unsettled in the Craft Training division have been disclosed separately pending approval from the General Treasury comparative figures relating to these items have been adjusted accordingly.

2.6 Apegama Project

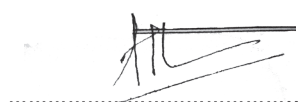
The activities of Apegama was handed over to the Education ministry as at end of 2015 as per the gazette notification No.1933/13. A cabinet paper was forwarded to recover the expenses incurred on Apegama from the Education Ministry.

SRI LANKA HANDICRAFTS BOARD
STATEMENT OF
FINANCIAL POSITION - CRAFT TRAINING

As at 31st December 2015

	2015 LKR
ASSETS	
Property, Plant & Equipment	46,298,422
Non-current assets	46,298,422
Inventories	
Trade Deb. & Other Receivables	31,140,299
Cash & Cash Equivalents	31,177
Current assets	31,171,476
Total assets	77,469,898
EQUITY AND LIABILITIES	
CAPITAL AND RESERVES	
Stated Capital	
Capital Reserves	814,419
Revaluation Reserves	9,086,454
Grants Received	55,336,829
Profit & Loss	(17,524,970)
Total capital & reserves	47,712,732
Retirement Benefit Obligations	
Deferred Tax Liabilities	12,345,384
Deferred Income	
Loan	
Non-current liabilities	12,345,384
Creditors and Accruals	14,475,754
Bank Overdraft	2,936,028
Current liabilities	17,411,782
Total equity & liabilities	77,469,898

The Financial statements are in compliance with the requirements of the LKAS.



Mr.E.A Delilkan
Director Finance(acting)



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

TCM/A/SLHB/1/03/2015/FA

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

16 May 2017

The Chairman,
Sri Lanka Handicrafts Board

Report of the Auditor General on the Financial Statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2015 in terms of Section 14(2)(c) of the Financial Act, No. 38 of 1971.

The audit of financial statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of 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 published with the Annual Report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed Report in terms of Section 13(7) (a) of the Finance Act was furnished to the Chairman of the Board on 20 February 2017.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).



1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraphs 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance and statement of changes in equity, and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Accounting Standards

Instances of Non-compliance with Sri Lanka Accounting Standards, are as follows.

- (a) Sri Lanka Accounting Standard 07
 - (i) Depreciations and amortizations totalling Rs.2,715,230 had been under adjusted in the net cash flow initiated from the operational activities.
 - (ii) The differed income shown under long term liabilities in the balance sheet had been decreased by Rs.25,339,988.
- (b) Property, plant and equipment should be disclosed by a separate Note in terms of Paragraph No.73(f) of Section 16 of Sri Lanka Accounting Standard 16. However, the descriptions for the fixed assets belonging to the "Apegama" Project amounting to Rs.30,580,126 and Katubedda Project amounting to Rs.63,037,977 respectively had not been disclosed by notes.



- (c) Even though a descriptive explanations should be presented by a Note on the provision of gratuity of the Board in terms of Sri Lanka Accounting Standard 19, descriptions including the opening balance of the year ,provisions of the year under review , payments of the year and closing balance had not been disclosed by a Note in the financial statements.

2.2.2 Accounting deficiencies

The following observations are made.

- (a) Even though goods at a sales value of Rs.2,335,70304 had been granted in the year under review to the various parties as donations by 04 sales centres of the Board ,accounting of those goods had been omitted in the accounts.
- (b) The sales value amounting to Rs.781,552,673 as at 31 January 2015 according to the computer software System Applications & Products(SAP) which is the Board prepared accounts and the sales value amounting to Rs.789,905,614 according to the software called Point of Sales (POS) which is used for the sales value and sales activities thus there was a difference of Rs.8,352,941. Out of that difference ,a sum of Rs.6,773,995 had been credited to the Sales Account by an improper journal entry and debited to the stock as Negative Inventory . Evidences not available as the remaining difference of Rs.1,578,946 had been accounted.
- (c) Expenditure and assets had been understated and the profit had been overstated as the relevant expenditure or assets had not been adjusted to the Accounts due to action not taken to settle the sundry advances totalling Rs.8,713,574 granted for the miscellaneous non-trade purchases.
- (d) Even though according to the Board of Survey Reports the cost of the stock of goods adjusted by the end of the year amounted to Rs.396,229,215 ,the cost of that stock of goods had been stated in the financial statement as Rs.534,591,366 that is over stated by Rs.138,362,151.



- (e) According to the Board of Survey Reports of the Board, the damaged and stock shortage by the end of the year amounting to Rs.25,549,835 to the cost .As a result of adjusting that value to the stock as Rs.12,328,247,necessary adjustments relating to damaged stock and stock shortages totalling Rs.13,221,588 had not been made. Accordingly, the loss of the year had been under stated by the same amount as the stock shortage adjusted in deficit.
- (f) The sum of Rs.42,901,745 that should be shown under the tax liabilities payable from the year 2008 had been shown under differed tax in the statement of financial position from the year 2012 to 31 December in the year under review.

2.2.3

Unexplained Differences

The following observations are made.

- (a) Differences totalling Rs.1,345,747 existed in the comparison of the balances of 03 categories of assets according to the financial statements and the same balance according to the Register of Fixed Assets.
- (b) According to the confirmation letter of loan balances of the Treasury Operational Department ,the Treasury loan balance as at 31 December 2015 amounted to Rs.4,767,000. However, a difference of Rs.1,702,500 existed due to the same loan balance had been recorded as Rs.3,064,500 in the financial statements.

2.2.4

Lack of Evidence for Audit

Due to the evidences stated against the following items of accounts had not been presented to audit ,those could not be satisfactorily vouched or accepted in audit.



Item	Value	Evidence not made Available
-----	-----	-----
	Rs.	
Lands and Buildings	655,850,917	Registers of Fixed Assets
Bank Loans of Regional Development Banks	200,000,000	Files relevant to Loan Agreements and obtaining loans
Bank Current Accounts -04	1,042,715	Bank Statements and Bank Reconciliation Statements of the year 2015
Renovation of Laksala at Fort	43,751,410	Properly maintained original copies of the files and records relevant to the renovation of the building.
Computers and Accessories	29,112,879	Register of Computers and Accessories
Exhibits	4,984,780	Physical Stock Verification Reports
Stock of Sales Goods	17,815,115	
Other Income	10,399,200	Ledger Accounts
Short term Bank Loans	110,177,581	Registers of obtaining and paying of Loans
Business Promotion Expenses	477,936	Paying voucher numbers, cheque numbers and the code number of the corresponding Ledger Account.
Sponsor Expenses	1,187,175	Files included paying vouches ,details of payments
Compensation Payments relating to non –construction of Antenna Towers	2,000,000	Even though this value had been credited to an another Income Account by using an irregular Journal Entry without recovering from the contractor ,the method of accounting the debit entry was not made available to audit.
Creditors and Gratuity Credit Account	600,000	Relevant Journal Entry and explanations.



- (b) A Payment of Rs.246,675 had been made using a paying voucher on 23 June 2015 as an advance of 50 per cent for the supply of food for the Swarna Warna Awarding ceremony. The files and written evidences relevant to this payment had not been made available to the audit and evidences could not be identified relating to the remaining payment of 50 per cent carried out or accounted as accrued expenditure.
- (c) A sum totalling Rs.3,302,729 had been debited to the other Income Account in 11 instances using 09 computerized vouchers and 02 AP invoices which was not credited to the other income during the year under review. As no any descriptions and explanations relevant to this debit which had been accounted through the SAP Computer Programme was made available to audit, the true and fair view of that could not be accepted in audit. Due to this debit, an unusual debit balance of Rs.1,353,596 had been existed in the other Income Account as at 31 December 2015.

2.3 Transactions not Supported by Adequate Authority

A sum totalling Rs.517,380 had been debited to the Inventory Items Account and credited to the Business Promotion Expenditure Account by using Journal Entry not numbered during the year under review. No any written evidences had been presented for this Journal Entry which was without a written approval and it had been accounted by the SAP Computer Software.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the trade and other balances receivable as at the end of the year under review totaling Rs.14,251,257, consist of balances less than one year totaling Rs.4,838,417, balances from 1 year to 2 years totaling Rs.1,430,131, balances from 2 years to 3 years totaling Rs.5,313,594, balances of 3 years and older than that totaling Rs.2,669,115. A proper action had not been taken to recover those outstanding balances.



- (b) Out of the trade and other balances payable as at the end of the year under review totaling Rs.323,914,121 consist of balances less than one year totalling Rs.190,279,816, balances from 1 year to 2 years totaling Rs.72,309,032 ,balances from 2 years to 3 years totaling Rs.55,124,151 ,balances of 3 years and older than that totalling Rs.6,201,122. Action had not been taken to settle those outstanding balances.

2.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliance with laws, rules, regulations, etc., observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

- | | |
|--|--|
| (a) Sections 10 and 16 of Employees' Provident Fund Act, No.15 of 1958 | Contributions of the Employees' Provident Fund totalling Rs.11,412,950 relating to the period from 2006 to 2012 had not been paid. |
| (b) No.05 of Section 40 of the National Crafts Council and Allied Institutions Act, No. 35 of 1982 | Even though the Board of Directors should meet once in 02 months, meetings of the Board of Directors had not been held from January to 16 April 2015. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 371 | Even though the maximum limit of advance that can be paid to a Staff Officer is Rs.20,000, a sum totalling Rs.2,151,140 had been paid as advances in 06 instances to an Officer up to 30 June 2015 exceeding that limit. |



(ii) Financial Regulations 387

Even though overdrafts are not allowed in the Government Institutions, a sum of Rs.5,616,061 had been obtained as Bank Overdraft as at 31 December 2015.

(d) Government Procurement

Guidelines No. 387/08 dated 25 January 2006.

(i) Guideline 1.3.2

The Procurement Guidelines had not followed in the selection of an Institution regarding the creation of a web site for the Board .

(ii) Guideline 2.14.1 and Supplement No.28

A sum of Rs.1,270,176 had been paid to a Private Institution without calling quotations for the conduct of sales promotion programmes for the New Year Festival 2015.

(e) Public Enterprises Circular No. PED/12 of 02 June 2003

Section 4.2.6

Performance Report reviewed by the Board of Directors should be presented to the Department of Public Enterprises and the General Treasury at least 30 days prior to the end of the quarter .Nevertheless, action had not been taken accordingly.

(f) Public Enterprises Circular No. PED/57 of 11 February 2011

(i) Section 2

Payments of Rs.5,225,190 had been made in the year under review as propaganda and business promotion expenses without obtaining approval of the Department of Public Enterprises including the



propaganda programmes into the Annual Action Plan.

(ii) Section 6 (iii)

The approval of the Minister of Finance should be obtained in the instances of exceeding the limit of Rs.100,000 for the sponsorship expenses. Nevertheless, sponsorship expenses totalling Rs.865,000 had been incurred in 03 instances without obtaining the approval.

(g) Paragraph 02 of the Circular No. DMS/G3/60/2 dated 21 December 2012 of the Department of Management Services

The Scheme of Recruitment for all the posts approved under the restructure should be prepared and the recommendations of the National Salaries and Cadre Commission should be obtained. However, approval had not been obtained by preparing the Scheme of Recruitment.

(h) Circular No.PE1/000/6 dated 13 June 1998 of the Department of Public Enterprises.

Even though only the entertainment expenses incurred by the Chairman of the Board can be reimbursed, contrary to that, a sum totalling Rs.665,000 had been paid as entertainment allowances.

(i) Section 2 of the Public Enterprises Circular No.PED/58(2) dated 15 September 2011.

Even though a monthly allowance of Rs.60,000 should be paid to the Chairman of the Board, allowances totalling Rs.1,107,666 had been paid as Rs.250,000 per month during the period from February to June 2015 treated as the Chief Executive Officer.



3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating result of the Board for the year under review amounted to a loss of Rs.21,838,265 as against the net profit of Rs.7,302,990 for the preceding year. Accordingly, a deterioration of the financial result amounting to Rs.29,141,255 was shown as compared with the preceding year. The deterioration had mainly attributed as a result of decrease in sales, increase of cost of sales, decrease of other income and adjustment of the revenue expenditure brought forwarded of previous years.

An analysis of the Financial results of the year under review and 4 preceding years indicated continuous net profit had been shown from the year 2011 to the year 2014 where as a loss had been occurred in the year under review. However, when the employees' remuneration, the Government taxes and the depreciation on non-current assets are considered, the contribution of the Sri Lanka Handicrafts Board amounting to Rs.103,931,453 in the year 2011 and it had continuously improved in the year under review to Rs.114,041,422.

3.2 Working Capital Ratios

The Quick Assets Ratio which was 0.36 in the year 2014 had been dropped in to 0.27 by the year 2015 by 25 per cent as compared with the preceding year. Drop of this Quick Assets Ratio had indicated an adverse condition and existence of a stock of commercial goods of 77.3 per cent out of the current assets of the Board had been the reason for the dropping of this ratio.



4. Operating Review

4.1 Performance

The main objectives of the Board are expansion of the produce of handicraft goods in Sri Lanka and improve and promotion of the condition of those goods ,sale and marketing and sales promotion of handicraft goods both locally and internationally and carrying out all activities which is the opinion of the Board to need to achieve the objectives mentioned above .

The following observations are made relating to the achievement of the above objectives.

- (a) It was observed that a tendency for the decrease in purchasing the produced goods from the local handicrafts producers after the year 2013. Therefore, purchases of Rs.379,275,627 in the year 2014 had been Rs.324,042,365 in the year 2015 thus the purchase of local productions in the year 2015 had been decreased by 14.56 per cent.
- (b) In the examination of the sale of the handicraft goods in local market ,the sales value of Rs.824,873,049 in the year 2014 had been decreased by Rs.35,568,300 in to Rs.789,304,749 in the year 2015. However, a minor improvement existed in the sale of foreign market, the tendency towards the foreign market was at a very low level.

4.2 Management Activities

The following observations are made.

- (a) The three storeyed hostel building of 4680 square feet in extent that could facilitate training for 80 students, is being constructed in the premises of the Carpentry Training Division in Katubedda by spending Rs.20,447,738 in the year 2006. However, due to the construction had been stopped from the year 2008 without constructing the roof of this building ,the walls of this building cracked and the building had been subject to depredation. The Management had not taken action to protect this building and made use for a fruitful activity.



- (b) The Board had used an another Computer Software System called Point of Sales (POS) for the sales activities and keeping records on stock of goods. When transferring the information of sales and stock of commercial goods from POS to System Application and Products (SAP) software ,these transfers are being happened with defects and as a result of that ,Negative Bills had been formed. Accordingly, there were unsettled differences between the stock according to the Computer Ledger and the physical stock and the attention of the management had not been paid to rectify the stock balances in showrooms.
- (c) According to the decision of the Cabinet of Ministers on the Cabinet Memorandum No.12/1523/553/020 dated 18 November 2012 ,recommendations had been made for the legal transfer of the land and building belonging to the Lanka Salusala Ltd branch at Galle constructed at Unawatuna, Galle to the Laksala .Accordingly, a sum of Rs.15,248,575 had been paid on 12 December 2012 as purchase consideration for the purchase of that property and a period of 3 years had been elapsed and action had not been taken to take over this land and building legally to the Laksala.

4.3 Operating Activities

The following observations are made.

- (a) A loan totalling Rs.749,481,500 had been obtained in 10 instances during the period from the year 2011 to the year 2015 mortgaging building of the Fort Laksala and the land belonging to the Board, to a State Bank and the outstanding loan balance as at 31 December 2015 amounted to Rs.265,570,182. Out of that loan ,payments for the renovation of the Laksala building at Fort, constructions of the Apegama premises, various foreign travels ,payment of previous years loan installments and interests and the operating and administrative expenses of the Board had been made . Due to the operating inefficiency of the Board , it happened to obtain loans continuously as mentioned above and the loans obtained in that manner had not been deployed in a fruitful investment. Further, the construction work of Laksala at Fort ,construction of Apegama and functions of several Laksala showrooms had been completely abandoned at present.

- (b) Twelve Managers recruited on contract basis had been deployed in 12 showrooms out of 14 showrooms functioned by the Board and the employees recruited on contract basis had been deployed for the posts of Store Keepers and other various posts as well. According to the reports of the Board of Physical Verification , a stock shortage of Rs.24,383,988 was observed by the end of the year and there was a risk in respect of the security of the stock due to deploying employees on contract basis for the main operating activity of the Board .
- (c) Due to the renovation activities of the Laksala Showroom at Colombo Fort, the showroom had confined to 1/4th of its earlier extent, and the sales of that showroom had also dropped in the year under review by Rs.11,839,992 as compared with the year 2014.

An adequate steps had not been taken by the Officers responsible for the promotion of sales.

4.4 Transactions of Contentious Nature

The Apegama Project which had been commenced with the concurrence of the Common Wealth Heads of Government Meeting 2013 had been entrusted to the Ministry of Education by a Gazette Extraordinary No.1933/13 dated 21 September 2015. Accordingly, one year period had elapsed by December 2016 handing over by the Laksala to the Ministry of Education the all daily income received from the Apegama Project from December 2015. However, action had not been taken to obtain the expenses incurred for the Apegama Project to the Laksala.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Buildings with lecture halls that could facilitate training for 30 students simultaneously for the one year training course of the Light Engineering valued at Rs.3,988,500 at the Training Institute in Panadura, Keselwatta, the land of 40 perches in extent, light engineering equipment including lathe machines had not been used for the training activities and remained idle over a period of 6 years from the year 2010.

- (b) The land of 2 acres and 24.9 perches in extent situated at No.282, Galle Road, Katubedda, Carpentry Training hall that could facilitate training for 80 students simultaneously of 11,200 square feet and machinery, teaching equipment fixed therein, timber stores of 2090 square feet and two storied hostel of 4680 square feet equipped with 40 double beds and furniture, had remained idle over a period of 5 years due to stop the training activities of the carpenters from the year 2011.
- (c) A stock of goods non-movable totalling Rs.3,890,800 had been stored and idle in the Katubedda Project due to closing down of Welipenna 2 Showroom at Wagolla during the year 2015, tarnish of goods and various repairing requirements. Action had not been taken to remove from the stock of sales goods or the goods repairable, repaired and send to the show rooms for the sale the stock of goods of which had been in a condition of unable to sale.

4.6 **Uneconomic Transactions**

The following observations are made.

- (a) A sum totalling Rs.5,706,475 had been paid as a surcharge in the year 2015 due to failure to pay the contributions to the Employees Trust Fund properly during the period from the year 2006 to the year 2012.
- (b) The Light Engineering Training Division in Panadura, Keselwatta had been closed down and not utilized for a fruitful activity and a payment totalling Rs.957,512 had been made in the year 2015 as security and electricity expenses.
- (c) The Bank had capitalized the loan interests due to failure to pay the interests for the loans obtained by the Board in the year 2013 from the Regional Development Bank. It had to be paid to the Bank an extra loan interest of 9.8 per cent that is Rs.453,161 for a period of 4 months from September to December in the year 2015 due to capitalization of that loan interest.
- (d) Despite the buildings in Katubedda remained idle, a buildings had been obtained on lease from 15 May 2013 from the Norris Canal area in Colombo 10, for the office and stores. Rentals totalling Rs. 11,148,000 had been paid up to 31 December 2015 and a sum of Rs.1,350,493 had been paid for the repairs therein.



4.7 Identified Losses

Contrary to the aims and objectives of the Institution, the Board had accepted a contract of the construction of an antenna tower of the Sri Lanka Broadcasting Corporation on 07 September 2011, a sum totalling Rs.4,348,041 had been paid to the Sri Lanka Broadcasting Corporation during the 2 years of 2014, 2015 on failure to fulfill that construction contract properly. The Board had handed over that construction contract to a private contractor and action had not been taken to recover the loss from the contractor which had to be paid due to failure to complete the contract properly .

4.8 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Board was 194 including the permanent cadre of the Board 127 and the Contract staff 67. Forty vacancies in the permanent cadre existed at present and there were 34 excess employees on contract basis.
- (b) Twenty eight employees had been recruited for non-approved 14 posts exterior to the approved posts in the Department of Management Services.
- (c) Even though only 04 posts of Consultants on contract basis had been approved for the Board ,a sum of Rs.4,850,000 had been paid in excess during the year under review due to recruit for 03 posts of Consultants in addition to the said approved posts of Consultants.

4.9 Procurement and Contract Procedure

Estimation of Rs.136,815,008 had made in January 2013 and the contract had been awarded for the renovation activities of the building which the Head Office of the Laksala in Colombo Fort and the showroom are maintained.



- (a) In terms of Guideline 3.2 of Supplement 20 dated 01 January 2011 of the Procurement Guidelines, a contractor should be selected on the decision of the Procurement Committee of the Ministry following Open Competitive Bidding procedure .However, contrary to that ,the contract had been awarded to the same contractor on the decision of the Procurement Committee of the Department dividing the contract into 4 stages without any reasonable explanation.
- (b) The same officers entitled as the members in both committees named Procurement Committee and the Technical Evaluation Committee in the contract of the renovation of Laksala at Fort contrary to Guideline 2.8.1(a) of Supplement 20 of the Procurement Guidelines.
- (c) Payments of Rs.25,589,959 had been made for the 04 stages without obtaining a guarantee for the payment of advances in terms of Guideline 5.4.4 of the Procurement Guidelines.
- (d) It had been failure to recover the money paid, due to a performance security had not been obtained in terms of Guideline 5.4.4 of the Procurement Guidelines.
- (e) Even though payments totalling Rs.43,751,409 had been made for the renovation works of 4 stages, the renovation works had been abandoned by the contractor since September 2014 without completing the renovation works .

5. Accountability and Good Governance

5.1 Presentation of Financial Statements.

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and Draft Annual Report should be presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented only on 10 October 2016.



5.2 Corporate Plan

Even though according to Section 5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003,the updated Corporate Plan approved by the Board of Directors should be presented to the Line Ministry, Department of Public Enterprises ,General Treasury and the Auditor General before 15 days of the beginning of the year , action had not been taken accordingly.

5.3 Action Plan

An Action Plan in terms of the Public Finance Circular No.01/2014 dated 17 February 2014 had not been prepared.

5.4 Audit Committees

Even though Audit and Management Committees should meet at least once in 03 months, in terms of Section 7.4.1 of Public Enterprises Circular on Good Governance No.PED/12 of 02 June 2003, Audit Committee meetings for the year 2015 had not been held .

5.5 Procurement Plan

A Procurement Plan in terms of Paragraph 4.2 of the Government Procurement Guidelines No.08 dated 25 January 2006 had not been prepared.

5.6 Tabling of Annual Reports

In terms of Section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, action should be taken to table the Annual Reports with Audited Accounts in three languages in Parliament within 150 days for close of the financial year. However, action had not been taken to table the Annual Report of the year 2014 in Parliament even up to 31 December 2016.

5.7 Unresolved Audit Paragraphs

A sum of Rs.340.5 million had been spent up to the year 2014 for the tasks which the powers not assigned by the Cabinet Paper No.06/021/234/004 of 01 February 2006 and the National Crafts Council and Allied Institutions Act, No. 35 of 1982 establish the Sri Lanka Handicraft Board as shown in the report of the year 2014.A sum of Rs.2,848,041 had to be paid to the Sri Lanka Broadcasting Corporation due to failure to act in terms of



the Agreement entered into build an antenna tower of the Sri Lanka Broadcasting Corporation in the year under review.

Several activities contrary to the objectives and activities of contentious nature are given below.

	Service Station -----	Activity of Contentious Nature -----
(i)	Municipal Council of Sri Jayewardenapura Kotte	Fixing 20 Light Systems operated by Solar Power in Welikada Childrens'Park and the premises of the Urban Council.
(ii)	Sri Lanka Broadcasting Corporation	Construction of a Transmission Tower
(iii)	Ministry of Justice	Modernization of International Arbitration Centre

The Laksala had to face judicial procedure and to pay various compensation even as at the year under review due to establish an Engineering Unit in Laksala and awarding internal and external contracts of the Board to the contractors who registered in the Board and failure to fulfill those activities .

6. **Systems and Controls** -----

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.



Areas of Systems and Control

(a) Financial Control

Observations

The Board had not entered Journal Entries under proper control, entering of un-numbered journal entries, accounting of Journal Entries without written approval and non-accounting of transactions and non-preparation of trial balance by computer accounting method and non-preparation of Financial statements.

(b) Stores Control

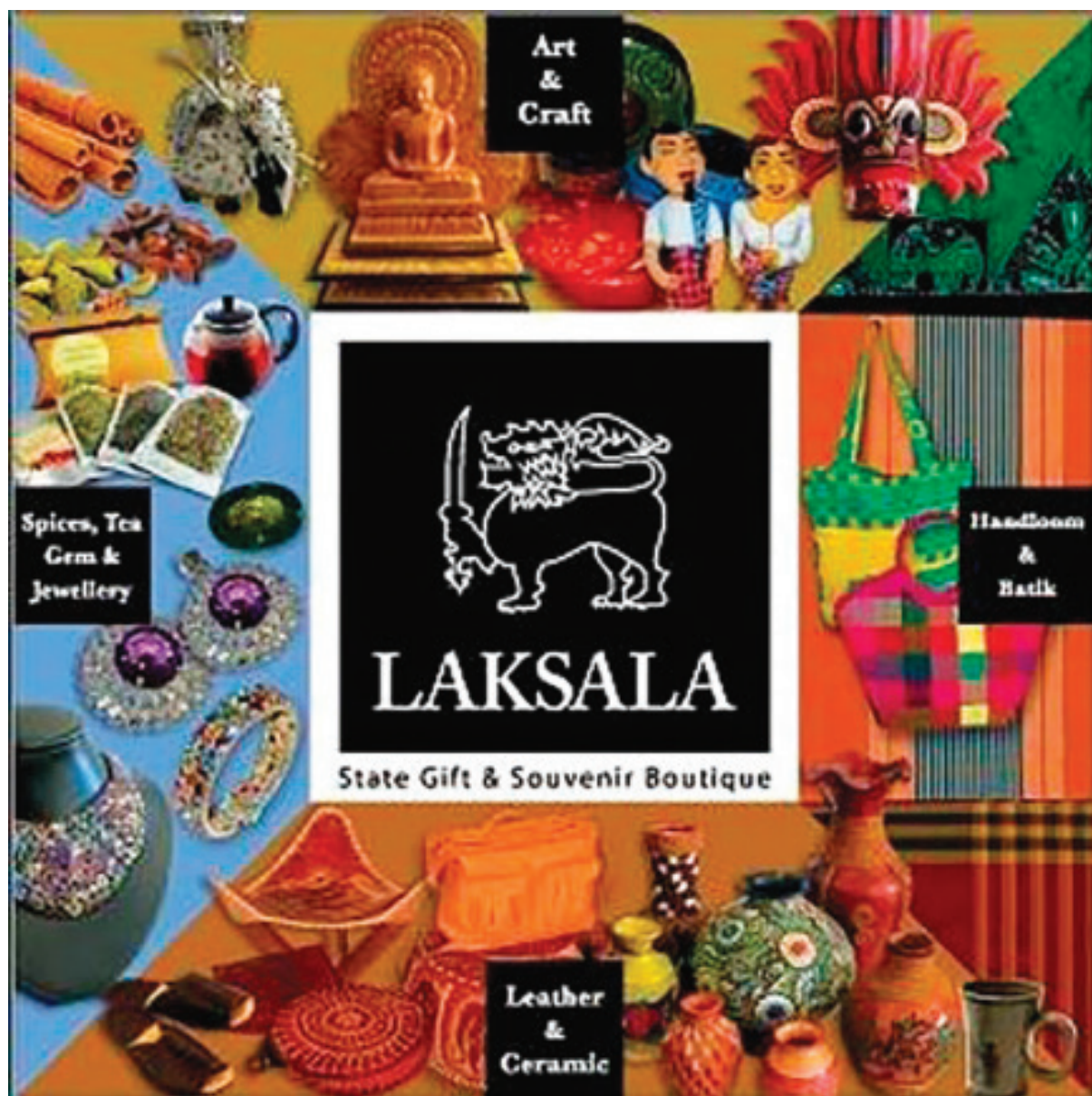
Period of 06 months had been taken for the physical stock verification, the adjustments to be made to the stock as at the end of the year had not been carried out on the basis of each items.

(c) Stock Control

It was observed that the goods for sale at showrooms had been remained for a long period without sale and certain goods had become a condition of out of sale and remove from showrooms and had to be modernization.

(d) Personnel Administration

Out of the staff of the Board, 60 per cent had been recruited on contract basis and the approved cadre of the Board had not been updated on the timely requirement of the Board.



Art
&
Craft

Spices, Tea
Gem &
Jewellery



State Gift & Souvenir Boutique

Handloom
&
Batik

Leather
&
Ceramic