

Lanka Salusala Ltd -2008/2009

The audit of the financial statements of the Lanka Salusala Ltd as at 31 March 2009 comprising the statement of financial position for the financial year 2008/2009 for the year ended 31 March 2009 and the statement of income, statement of changes in equity and the 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.. My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 my audit.

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 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 income, statement of changes in equity and cash flow statement as at 31 March 2009.

2. Financial Statements

2.1 Disclaimer of Opinion

Because 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 Going Concern of the Company

Even though the Lanka Salusala Ltd had prepared financial statements based on the assumption whether having a going concern, the Company had sustained losses since the accounting year 1992/1993. The accumulated loss as at 31 March 2009 amounted to Rs.767,878,682 and the deterioration of the ownership of the shares of the Company amounted to Rs.467,878,682. Further, the Company had invested Rs.7,000,000 and receiving of said invested money and the sum amounting to Rs.70,134,234 receivable further more from the Lanka Textiles and Emporium Company Ltd which had been owned the hundred percent of the ownership was uncertain due to the said Company existed in an inactive

condition. It was observed at audit that there is an uncertainty of the going concern of the Company without other financial assistance of the Treasury or the Government as the ownership is diminished due to the above effect.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The value of the stock of goods in the Rathnapura Branch had not been assessed and included to the inventory goods shown in accounts as Rs.17,892,200 as at 31 March 2009.
- (b) An expenditure amounting to Rs.101,570 relating to the preceding year incurred for the transportation of uniforms in January 2008, had been accounted as an expenditure of the year of accounts under review.
- (c) Electricity charges amounting to Rs.147,006 payable for the Head Office for the year under review had not been accounted.
- (d) The allocations in the accounts of the audit fees payable for the year of accounts under review had not been made and the arrears of audit fees amounted to Rs.1,461,650 existed as at 01 April 2008 had not been settled as well.
- (e) As the sum of Rs.1,225,000 paid to the creditors during the year of accounts under review on a Court Order had been written off against the profit as legal expenses, the Creditor Account had been over stated by the same value
- (f) Over provision of depreciations amounting to Rs.972,964 had been made for the year under review for the fixed assets.

2.2.3 Unreconciled Control Accounts

According to the financial statements presented, a difference of Rs.25,699,136 was existed between the balances according to the overdraft balances of 7 Bank Accounts and bank confirmations and a difference of Rs.23,514,284 was existed between the balances according to balances of deposits of 2 Bank Accounts and bank confirmations .

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items of accounts was not made available to audit and as such, they could not be satisfactorily vouched or accepted in audit.

	Item -----	Value ----- Rs.	Evidence not presented -----
(a)	Stock remained	17,892,200	Reports on Board of Survey
(b)	Provision for accumulated depreciations	47,775,818	Detailed schedules shown the manner of calculation of stocks

(c)	Investments	7,000,000	Investment certificates for the investments made in the Lanka Textiles and Emporium Company.
(d)	Trade and other debtors	24,053,369	Confirmation of Debtors Balances, Age analysis
(e)	Provision for bad debts and doubtful debts	12,078,552	Basis for allocation of Bad and Doubtful Debts
(f)	Advances and pre payment	11,573,597	Schedules and Confirmations
(g)	Employee Loans	1,418,459	Loan Register, Time Analysis for loans.
(h)	Taxes Receivable	4,558,719	Schedules and Confirmations
(i)	Receivables from the related parties	70,134,234	Schedules and Confirmations
(j)	Short term Deposits	23,859,572	Confirmations for the deposits relating to the Self -retirement Scheme.
(k)	Cash and Bank Balance	23,143,282	Schedules and Confirmation of Balances
(l)	Trade and other creditors	352,817,722	Schedules and Confirmation of Balances .
(m)	Balances of Bank Overdrafts	141,331,540	Confirmation of Balances relating to 02 Accounts
(n)	Clearance and Transport Expenses	900,000	03 Paying Vouchers
(o)	Water, Electricity and Telephone Bills	2,451,052	03 Paying Vouchers and Relevant Bills
(p)	School Uniform Project	312,607	Information relevant to the income and expenditure of the Project
	Income	2,607,138	
	Expenditure		
(q)	Fixed Assets	24,594,955	Board of Survey Reports, Title Deeds , Lease Agreements
(r)	Other Debtors	6,938,495	Confirmation of Debtors Balances , Time Analysis
(s)	Other Income	20,305,232	Schedules and Conformation of Balances
(t)	Financial Leasing	1,724,622	Confirmation of Balances
(u)	Bank Loans	21,439,935	Confirmation of Balances

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.12,078,552 which was 50.22 per cent of the total debtors amounting to Rs.24,053,370 as at the end of the year of accounts under review had been provisioned as doubtful debts from the account year 2005/2006 .
- (b) Action had not been taken to recover the 11 debtors balances amounting to Rs.2,084,410 brought forward from the year 2004 even by 31 March 2009.
- (c) Even though in the showing of other debtors amounting to Rs.19,469,999 in financial statements at the end of the year of accounts under review , credit balances of Rs.8,045,387 and Rs.4,510,876 had been deducted in the name of the Ministry of Education and as the Welfare debtors respectively, action had not been taken to identify and settle the said credit balances.
- (d) A balance totalling Rs.39,829,636 payable from a long period for the Employee Trust Fund and the Employee Provident Fund at the end of the year of accounts under review had been shown in accounts without being settled.
- (e) A balance amounting to Rs.294,107 outstanding from a long period within the balance of telephone charges amounting to Rs.430,039 at the end of the year of accounts under review was existed.
- (f) Action had not been taken to settle the debit balance amounting to Rs.5,389,872 and a credit balance amounting to Rs.15,418,457 which had been brought forward from accounts relating to various taxes.
- (g) The interest of Bank Overdrafts payable amounting to Rs.157,497,600 was being brought forward from accounts from a long period .

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following Non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliance

Financial Regulations of the Democratic
Socialist Republic of Sri Lanka

- (a) Financial Regulation 395 Bank Reconciliation Statements relating to 10 Bank Current Accounts had not been prepared for the account period of 2008/2009.
- (b) Financial Regulation 396 (d) Action in terms of Financial Regulations had not been taken in respect of 62 cheques valued at Rs.4,110,231 which had been issued relating to a Bank Current Account but not presented to the Bank.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year of accounts under review had resulted in a deficit of Rs.72,829,342 as compared with the corresponding deficit of Rs. 17,402,986 in the preceding year of accounts, thus indicating a decrease in the financial results by Rs.55,426,356 in the year of accounts under review as compared with the preceding year of accounts. The income of the year of accounts under review had decreased by Rs.30,110,167 as compared with the preceding year of accounts under review and increase in the distribution expenses and the administrative expenses by Rs.14,931,224 had mainly attributed for the above deterioration .

In the analysis of the financial results in the year of accounts under review and 4 preceding years, the deficiency in the financial result had been shown in the other years of accounts accept for the year of accounts 2006/2007 .The surplus of the period of Accounts 2006/2007 had caused the profit gained by sale of property, plant and equipment by Rs.194,340,862 and writing off the interest expenses payable by Rs.62,583,288 .

The annual expenses relating to the government taxes had not been recorded in the relevant Expenditure Accounts and it could not be satisfied in the accuracy of the said accounts due to the errors in the accounting of fixed assets and depreciation of assets .

3.2 Legal Incidents Initiated Against or By the Institution

A sum of Rs.141,455,374 for 25 cases pending against the Company as at 31 March 2016 should have been paid to the external parties by the Company and a sum of Rs.241,189 should have been recovered for a case filed by the Company.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Salusala Company had commenced the business activities with one showroom in the Colombo city in the year 1967 with a view to sale quality textiles and cloths. It had been changed under the Public Trade Corporations Act, No.23 of 1970 in the year 1971 and had been established as a Limited Company in the year 1991.The Institute had sustained a loss continuously as a result of unable to face the competitive with the open economy and therefore approval of the Cabinet had been received to liquidate the Salusala Company Limited in December 2006. The Lanka Salusala Limited had been handed over to the Strategic Enterprises Management Agency (SEMA) by the Gazette Extraordinary No.1601/34 dated 15 May 2009.
- (b) Decision had been taken to liquidate the Lanka Salusala Company Limited by preparing the necessary documents and furnished to the Secretary to the Ministry of Finance for the legal incorporation of the name of “Lanka Salusala” as “Lak Salusala” as the decision taken by the Cabinet of Ministers PED/CAB/ID/2009 dated 27 August 2009 according to a proposal presented by the Strategic Enterprises Management Agency . However, at the occasion of re-

structuring ,19 branches of Lanka Salusala Ltd had been distributed in addition to the Head Office. At the same time, the approval had been given by the Cabinet decision for introducing a method of self- retirement of 274 employees of the Institution based on the Circular No.PED10 of the Department of Public Enterprises and funds obtained for that purpose by sale of property situated at Kollupitiya, Rathmalana and Unawatuna , before the auction of the textile confiscated by the Sri Lanka Customs and the Sri Lanka Ports Authority and related goods , first procession of the sale of those items obtain to the Salusala.

- (c) According to the Cabinet Memorandum No.13/0878/553/010 presented on 02 August 2013 by the Minister as re-structuring of Lanka Salusala Ltd , instructions had been given to the Cabinet of Ministers to take over the properties belonging to the Lanka Salusala Ltd to the public institutions on 15 August 2013 and the said money obtained to the Lanka Salusala Ltd , implementing a detailed business plan for the re-structuring of Lanka Salusala Ltd based on the observations of the Minister of Finance and Planning and to present the Cabinet of Ministers.

4.2 Management Activities

The following observations are made.

- (a) **Employees Placed the Compulsory Leave and Recruitment of New Employees without getting approval of the Cabinet of Ministers.**
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- (i) One hundred and fifty eight persons had been placed compulsory leave from 15 May 2009 with pay including the employees worked in branches accept 54 officers worked at the Head Office of the Company in terms of the letter No.MTI/D/3/1/2009 of the Secretary to the Ministry of Textiles dated 15 May 2009 without an approval of the Cabinet of Ministers . A sum of Rs.71,810,624 had been paid as salaries and wages up to 30 June 2016 for the aforesaid employees. Action had been taken to close 11 branches in the outstation areas due to the employees placed compulsory leave.
- (ii) Eighty four employees had been recruited time to time after 15 May 2009 on casual basis for the staff of the Company after placed compulsory leave of the aforesaid officers with salary. A sum of Rs.18,498,760 had been spent for the salaries and wages up to 30 April 2016. The documents relating to given approval for the re- recruitment of employees was not furnished to the audit.
- (b) Shortage of stocks amounting to Rs.163,168 was existed in the verification of stocks as at 16 March 2015 in the showroom at Jawatta and no any action had been taken by the management in that connection.
- (c) A discount amounting to Rs.2,577,567 from the income of Rs.21,204,695 earned from the sale of textiles within the period of 6 years from the year 2010 to 2015 had been given for the vendee as desired by the Chairman or the Acting General Manager without determination of a specified percentage of discount and without the approval of the Board of Directors
- (d) Even though it had been informed by the letter ප. ඉ.කො/06/කො/175 of the Department of Land Commissioner for the leasing of assessed value for the period of 30 years from 01 January 2005 for the land situated at Jawatta which the Head office of the Company

maintained, action had not been taken to assets the lands and buildings and obtain based on taxes by 30 April 2016 ,the date of audit.

- (e) The Scheme of Recruitment had not been prepared and approved under the proposed restructuring with a view to strengthen the Government Institutions.

4.3 Procurement and Contract Procedure

The following observations are made.

- (a) Forty thousand sarees each per Rs.1,400 had been purchased at Rs.56 million in the year 2014 according to the order of purchasing sarees for the distribution of sarees for Dhamma School teachers on the provisions of the Ministry of Buddhasasana and Religious Affairs. This stock of sarees had been tested by the Sri Lanka Institute of Textile and Apparel whether those stock of sarees are in accordance with the specifications denoted by the Ministry of Buddhasasana and it was observed that deviations from the specifications. According to the Guideline 2.14.1 of the Procurement Guidelines , relevant purchase of goods and services over Rs.25 million should be implemented by the Procurement Committee of the Ministry. However, those activities had been carried out by the Purchasing Committee of the Institution and action had not been taken in accordance with the Procurement Policies.
- (b) In the purchasing of textiles amounting to Rs.548,819,679 from the year 2010 to the year 2015, the relevant procurement had been carried out with the attached parties of the Company contrary to the Procurement Objective 1.2 , Ethics in Procurement 1.4.1, 1.4.2 and 1.4.3 .

4.4 Resources of the Company Handed over to the other Government Institutions

An employee in the Salusala Company had been released at the necessary occasions for the personal staff of a Minister from 23 November 2000 to 10 July 2015 contrary to Section 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 and salaries and allowances totalling Rs.1,907,263 had been paid by the Salusala Company for the said period.

4.5 Staff Administration

Eight Officers of the Senior level, 139 Officers of the Tertiary level, 101 Officers of the Secondary level had been deployed in the service as at 31 March 2009. However, an approved staff had not been available in the Institution and recruitment and promotion schemes had not been prepared and approved.

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, dated 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. However, the financial statements of the year of accounts 2008/2009 had been presented on 12 April 2016.

6. **Systems and Controls**

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

Areas of Systems and Controls -----	Observations -----
(a) Fixed Assets	(i) Assets had not been identified and inventorized and numbering had not been done so as to identify the assets. (ii) Physical Board of Survey had not been carried out (iii) The profit of the sale of fixed assets had not been accounted properly.
(b) Debtors and Creditors	Action had not been taken to confirm the debtors and creditors balances outstanding from a long period.
(c) Financial Control	(i) Instances of non-preparation of paying vouchers are existed. (ii) Schedules relating to expenses, assets and liabilities had not been maintained adequately.
(d) Leasing of Buildings and Leasing out	(i) Non-maintenance of proper leasing documents (ii) Lease rentals had not been decided on the competitive basis in the leasing out.