

## **Lanka Salusala Ltd -2009/ 2010**

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The audit of the financial statements of the Lanka Salusala Ltd as at 31 March 2010 comprising the statement of financial position for the financial year for the year ended 31 March 2010 and the statement of income, statement of changes in equity and the cash flow statement for the year then ended and a summary of 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 Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Accounting Standards for small and medium sized entities 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 conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. 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.

## **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. I do not express an opinion on these financial statements.

### **2.2 Comments on the Financial Statements**

#### **2.2.1 Non-compliance with Accounting Standards**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As per chapter 17. 19 of the Sri Lanka Accounting standards for Small and medium-sized Entities, although the useful life of fixed assets are still in use despite being fully depreciated due to non-reviewing of useful life of non-current assets annually, action had not been taken to revise that estimated error and mention the correct carrying value in financial statements as per chapter 10.15 and 10.18 of the standard.	That action is taken to revalue the fully depreciated fixed assets but which are still in use once they are correctly identified and they would be mentioned in financial statements as per the Sri Lanka Accounting standards.	Should comply with the accounting standards.

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| (b) | Although the profit amounting to Rs.83.633 million earned from the sale of Colpetty building, had been correctly adjusted under non- financial receipts in the cash flow statement to be prepared as per Sri Lankan accounting standard 7 for Small and Medium-sized Entities, since Rs.90 million consisting 70 million received from the transaction and Rs. 20 million to be received, had been mentioned as an investment activity, the cash flow from the operational activities had been understated by Rs.20 million and the cash flow from the investment activities had been overstated by Rs. 20 million. | Agree with the observation. | Should comply with the accounting standards. |
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### 2.2.2 Accounting Deficiencies

The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Treasury grants amounting to Rs.13.8 million had been given for making payments for the cloths purchased from a private company. Although a sum of Rs.12,872,109 had been paid to the Creditor Institution, since there was no previously identified creditor, that amount had been stated in financial statements as a receivable amount.	That this has been so accounted for due to non-availability of proof to the effect that it was given for settlement of the loan.	Ledger accounts should be maintained properly.
(b) The purchases worth Rs.475,000 made in the month of March 2009 in relation to the preceding year, had been accounted for as purchases made in the year under review.	Agree with the observation.	It should be brought to account on accrual basis.
(c) Since the sum amounting to Rs. 186,098 paid for purchasing thread had been mentioned as Rs.286, 098 in the purchasing account, the purchasing account had been overstated by Rs.100,000.	Agree with the observation	Accuracy should be confirmed following the reconciliation of control accounts.

### 2.2.3 Lack of Evidence for the Audit.

Due to the evidence mentioned against the following subjects were not forwarded to the audit, it was not possible to satisfactorily verify or vouch during the course of the audit.

Subject	Value as per (2009/2010 financial statements) (Rs.)	Evidence not submitted	Comments of the Management	Recommendation
(i) Receivable tax	4,558,719	Tax register, schedules, verification of balances	Deeds of lease are available and they can be submitted to the audit.	The evidence required for the confirmation of the availability and the accuracy of the balances.
(ii) Short term deposits	33,617,600	Short term deposits, Certificates, Schedules, Verification of balances	The relevant evidence could not be given since these transactions had taken place a decade ago.	-Do-
(iii) Cash and cash equivalents ,	27,032,104	Bank statements, Bank reconciliations, verifications of balances.	Bank statements can be given for this.	Although it was said that the bank statements would be given, since it was not so done, the balance stated in bank statements should be confirmed through bank reconciliation statements and balance verifications.
(iv) Cash, and equivalents. (Overdraft balances)	Cash 183,426,109	-Do-	-Do-	-Do-
(v) Provisions for gratuity.	41,031,456	Computational reports	That action will be taken to submit the computational reports as immediately as	Computational reports should be forwarded to confirm the accuracy of the balances.

(vi)	Trade and other debtors.	88,115,056	Debtor ledger, Schedules, Age analysis, Verifications of balances	possible. Submitting of these reports is not practical Since a longer period has elapsed.	Evidence required in confirming the availability and the accuracy of the balances should be submitted.
(vii)	Trade and other creditors.	403,951,668	Creditor ledger, Schedules, Age analysis,	Submitting of these reports is not practical since longer period has elapsed.	Evidence required in confirming the availability and the accuracy of the balances should be submitted
(viii)	Lease rent.	35,890,592	Lease rent register, confirmations of balances.	That it is possible to make available the lease agreement to the audit.	-Do-
(ix)	Fixed assets	65,026,976	Fixed assets register, annual assets survey reports.	Action has been taken now to properly maintain fixed assets register	-Do-
(x)	Stocks	26,291,396	Reports of computing the stock value, annual stock survey reports.	Since the preparation of financial statements has taken place in the year 2023, stock surveying as at 31.03.2010 has been a practically difficult task.	-Do-
(xi)	Salary, wages and allowances.	67,786,023	Salary registers.	Action has been taken to forward the relevant information together with the vouchers related to payments.	Documents confirming the payments should be kept securely and forwarded together with the accounts.
(xii)	Provision accumulated depreciation.	46,154,048	Schedules	Agree with the audit observation.	The relevant schedules should be forwarded for

					the confirmation of the financial statement.
(xiii)	Bad debt and provision for doubtful debt.	12,078,552	Schedules	Agree with the audit observation.	-Do-
(xiv)	Long term loans	1,724,622	Agreements, documents confirming the obtaining of the loan.	Submitting of the relevant documents has been a practically difficult task.	The relevant documents should be available to confirm the balance.
(xv)	The profit/loss column retained in the statement of change of equity.	20,305,232	Documents confirming the adjusting value, journal entries.	Action will be taken to forward the relevant information as soon as possible.	The documents confirming the balances should be kept securely and forwarded.
(xvi)	Total debit balance in trial balance.	54,752,180	Since schedules have not been forwarded, It was not possible to verify whether in those balances are included in the financial statements.	It was noted to correct this situation in future.	Schedules should be forwarded.
(xvii)	Total credit balance in trial balance	327,460,425			
xviii)	Payments made in cash.	34,932,794	Non forwarding of 196 vouchers for which payments made are proved.	It was noted to correct these situations in the future.	Source documents should be forwarded.

### 2.3 Receivable and Payable Accounts

The following observations are made.

Audit observation	Comments of the Management	Recommendation
(a) Although the other debtor balance and pre-payment balance contained in the trade and other receivable stood at Rs.19,470,000 as at 31 March of the preceding year, it had decreased to Rs.7,688,384 in the year under review. However, due to the provision for doubtful debt balance in	These adjustments were noted to be corrected in the next year..	Provision for Doubtful debt should be correctly adjusted.

the preceding year that stood at Rs.10,761,990 being mentioned as doubtful debt in the year under review also, the doubtfulness of debts had not been correctly assessed.

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| <p>(b) Textile Emporium Limited holding the full share ownership of the Lanka Salusala Ltd had been incorporated on 14 April 1981, and the companies registered before 2007 were to reregister under section 487(2) of the Companies Act No 07 of 2007. However, due to non-carrying out such requirement, the name of the Company had been struck off on 20 September 2010 as per its sub section (3) and it is mentioned under sub section 5 that the assets of such companies shall be vested in and be at the disposal of the State. Accordingly, although that the sum amounting to Rs.7,000,000 invested in that Company by the Lanka Salusala Ltd and the receivable balance amounting to Rs. 70,134,234 have been shown as assets, it was observed that it is not possible to recover such money.</p> | <p>It was noted to take future action based on the decisions of the Board of Directors and the Department of Public enterprises of the General Treasury following reporting to them on the investment of Rs.7,000,000.00, the receivable balance of Rs.70,134,234.00 of the Textile Emporium Limited and on the current existence of this company.</p> | <p>Doubtful balances should not be mentioned as assets.</p>   |
| <p>(c) Action had not been taken to recover 13 debtor balances totaling Rs.2,138,923 existing from 2004 even by 31 March 2010.</p>  | <p>It was noted to make necessary adjustments on the instructions of the Board of Directors following studying of the debtor balance amounting to Rs.2,138,923.00.</p>   | <p>Action should be taken to recover the debtor balances.</p> |

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

The following non-compliances were observed.

	<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Good Governance Instruction Manual as per the Public Enterprises. Circular No PED/ 12 dated 02 June 2003.			

(i) Section 5.1.2	The Action plan had not been prepared in a manner that reflects management's responsibility of achieving the objectives and targets of the Company.	Action is now being taken to correct this drawback.	Action plan should be prepared and implemented for each year.
(ii) Section 9.2 (b)	No approval for the cadre for the Company had been obtained.	It was noted to further study this matter and report facts.	Cadre should be approved by the Management Services Department.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial result of the Company in the year under review was a profit amounting to Rs.80,211,829, and since the corresponding loss in the preceding year was Rs.72,829,342, the financial result in the year under review was an improvement by Rs.153,041,171 as compared with the preceding year. The increase of revenue of the sales outlets of the Company by Rs.49,855,112, the profit amounting to Rs.83,633,328 earned through the sale of the asset in Colpetty and the improvement in the building rent income by Rs.16,719,914 had mainly caused the above improvement.

#### 3.2 Court Proceedings instituted by or against the Institution.

Due to the lack of information, it was not possible to identify the number of court proceedings instituted against the Company, and the currently heard cases had not been revealed in the financial statements.

### 4. Operational Review

#### 4.1 Management Activities

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although the land located in Jawatta, wherein the head office of the Company is housed, containing in extent of 03 acres 01 rood and 18.68 perches, have been taken on lease for 30 years, due to not taking action to enter into a new lease agreement at the end of the lease period, viz, after 2005, the Land Commissioner General Department had taken action to distribute that land amongst two other Government institutions.	Agree with the audit observation.	The requirement of entering into a new lease agreement should be verified and action should be taken accordingly thereafter wards.

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| (b) | As per the chairman's letter No0000/2009/001 dated 25 February 2009 and the letter NoMT1/D/3/1/1/1/2009 dated 13 May 2009 of the Secretary of the Ministry, except for 54 officers served at the head office of the Company, 158 employees including those employees who served in the branches, had been sent on compulsory leave with salaries as from 15May 2009. Despite the situation being such, action had been taken to recruit from time to time after 15 May 2009 , 84 employees to the cadre of the Company on casual basis. | It was noted to carry out further inquiries in this regard. | Expenses should be productive. |
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**5. Accountability and Good Governance**

**5.1 Submission of Financial Statements**

**Audit Observation**

As per section 6.5.1 of the Public Enterprises Circular No PED/12 dated 02 June 2003, although the financial statement and the draft annual report should be submitted to the Auditor General within 60 days after ending of the accounting year, the financial statements for the year 2009/2010 had been submitted on 26 January 2023 after a delay of 12 years.

**Comments of the Management**

Agree with the Audit observation.

**Recommendation**

Action should be taken as per the Circular instructions.

**6. Systems and Controls**

The system and control deficiencies observed at the audit, were brought to the attention of the Chairman from time to time, and special attention was focused on the following control area.

<b>Systems and Control Areas</b>	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Finance Control	(i) Non- submission of journal entries and journal vouchers to check the accuracy of the journal entries contained in the General Ledger submitted.  (ii) Instances were encountered wherein no source documents were attached for payment vouchers.	It was noted to correct this situation in the future.	Approved journal vouchers and journal entries should be submitted.  Source documents should be available to verify the accuracy of the payment vouchers.