

## Lanka Sathosa Ltd – 2017

---

The audit of the operations of the Lanka Sathosa Ltd. for the year ended 31 December 2017 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. The financial statements to be presented by the Company in terms of Section 150 of the Companies Act, No.07 of 2007 had not been presented even by 30 September 2018. My observations on the performance of the Company during the year under review which I consider should be presented in Parliament in terms of Section 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### 1.1 Board of Directors' Responsibility for the Financial Statements

---

Board of Directors' 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.

## 2. Financial Statements

---

### 2.1 Presentation of Financial Statements

---

In terms of Public Enterprises Circular No.PED/12 dated 02 June 2003, the annual financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the close of financial year. Nevertheless, financial statements for the year 2017 had not been furnished even by 30 September 2018.

### 2.2 Existence of the Assets and Liabilities

---

Details on the assets, liabilities, income and expenditure stated in the financial statements as at 31 December 2015 prepared last by the Company are given below.

<b>Item of Financial Statement</b>	<b>Value Rs.</b>
-----	-----
<u>Assets</u>	
Non-current Assets	949,040,152
Current Assets	10,195,466,639
	-----
Total Assets	<u>11,144,506,791</u>
 <u>Equity and Liabilities</u>	
Equity	(3,033,662,184)
 <u>Liabilities</u>	
Non-current liabilities	248,673,144
Current liabilities	13,929,495,831
	-----

Total Equity and Liabilities	<u>11,144,506,791</u>
Total Income	28,277,487,951
Total Expenditure	(30,222,740,973)
	-----
Loss	<u>(1,945,253,022)</u>

As a result of losses incurred relating to the stocks including the damages caused to imported rice stocks, the equity had become a minor value since year 2014 and the unfavourable position of the equity and the existence of current liabilities exceeding current assets had resulted in an uncertainty regarding the going concern of the Company.

### 2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, regulations and management decisions were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliances</b>
-----	-----
(a) Public Enterprises Circular No.PED/1/2015 dated 25 May 2015.	Contrary to the referred Circular and on the approval of the Board of Directors, transport allowances had been paid to 19 officers who were not entitled to use official vehicles and the transport allowance thus paid during the year under review amounted to Rs. 1,672,500.
(b) Management Services Circular No. 05/2017 dated 25 October 2017.	As the professional allowances, which can be paid to the senior officers of the Government owned companies based on the period of service in terms of the referred circular, a sum of Rs.412,600 had been paid to 09 officers exceeding the prescribed rates from October to December 2017.

### 2.4 Transactions not Supported by an Adequate Authority

The following observations are made.

- (a) Without being obtained the Treasury approval in terms of Section 9.7 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a performance allowance at Rs.100,000 and Rs.75,000 per month for the Chief Executive Officer and a Deputy General Manager respectively had been paid to 06 officers on the approval of the Board of Directors and the allowances thus paid during the year under review had totaled Rs.5,615,000

- (b) Without being obtained the Treasury approval in terms of Section 9.7 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a professional allowance at Rs.10,000 and Rs.100,000 per month had been paid on the approval of the Board of Directors to the officers and the Chief Executive Officer respectively, who had submitted the professional qualifications. The allowances thus paid for 09 officers during the year under review had totaled Rs.964,333.

### **3. Operating Review**

-----

#### **3.1 Performance**

-----

##### **3.1.1 Planning**

-----

In terms of Section 5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a Corporate Plan should be prepared for a period not less than 03 years for the achievement of vision and mission of the Company and correspondingly, an Action Plan should be prepared for the year under review. Nevertheless, a Corporate Plan and an Action Plan had not been prepared for the year under review. Further, an annual budget pertaining to the year under review had not been prepared so as to be complied with the Corporate Plan in accordance with Section 5.2 of the Circular.

##### **3.1.2 Activity and Review**

-----

The following observations are made.

- (a) Although the Treasury had granted provisions of Rs.850 million for the capital activities such as commencement of new trade stalls of the Company, renovation of trade stalls, installation of security camera system, development of enterprises resources planning system and the construction of a trade stall at Mannar during the year under review, a sum of Rs.424.1 million or 49.8 per cent of the above amount had been spent for the construction of new trade stalls. Provisions had been made for the commencement of 150 new trade stalls, whereas 67 new trade stalls only had been opened by the end of the year under review.
- (b) Although it was expected to increase the sales and profitability by opening new trade stalls, it was observed that whilst increasing the number of trade stalls by 20.8 per cent during the year under review, increase in the sales income remained at 10.7 per cent.

### **3.2 Resources of the Company given to other Public Institution**

-----

Contrary to Section 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, seventeen members of the staff of the Company had been attached to the Line Ministry from January to July 2017 and a sum of Rs.2,594,340 had been paid as salaries and allowances of those officers by the Company and action had not been taken to reimburse the above expenditure.

### **3.3 Management Activities**

-----

The following observations are made

- (a) Due to the internal control weaknesses found in the trade stalls with regard to the stocks, it had not been possible to compute stock losses accurately. As such, out of the loss of Rs.4,625,526 identified for claiming insurance indemnity in connection with burgling 10 trade stalls of the Company during the year under review, sums totaling Rs.1,026,666 only could be received as the relevant insurance indemnity. Further, action had not been taken to identify the parties that should be held responsible for the relevant losses and recover the same.
- (b) Although 03 years period of lease of the building obtained on lease basis to maintain Lanka Sathosa trade stall at Mallawapityya, Kurunegala had come to end, action had not been taken to terminate the relevant agreement. The rent which had been paid without termination of the agreement for a period of 14 months from November 2016 to December 2017 totalled Rs.1,400,000 at Rs.100,000 per month.

### **3.4 Staff Administration**

-----

The approved cadre of the Company was 4,186 and the actual cadre was 3,784. The following matters were observed in that respect.

- (a) In parallel to increase in the number of trade stalls of the Company, the cadre had been approved during the year under review, whereas recruitments had not been made accordingly. As such, there was a shortage of 1,024 staff, and excess of 622 staff due to making recruitments for the unapproved posts.
- (b) Three officers who were recruited as the management experts to the Line Ministry during the year 2016 had been attached to the Company for various duty assignments and the Company had paid a sum of Rs.930,000 as the allowances of those officers during the year under review.

## **4. Accountability and Good Governance**

-----

### **4.1 Conduct of Annual General Meetings**

-----

In terms of Paragraph 133 of the Companies Act No.07 of 2007, the Board of Directors of a company shall conduct an Annual General Meeting once in every calendar year. Nevertheless, only one General Meeting had been conducted from the year 2005, the year of commencement of the Company, up to 30 September 2018, the date of audit.

### **4.2 Unresolved Audit Paragraphs**

-----

The Company had not taken necessary steps on the following deficiencies which had been pointed out by Paragraph 4.3 of the Auditor General's Report on the Company for the year 2014 .

Failure to get approval for an organization structure and a scheme of recruitment corresponding to the approved cadre of the Company in terms of Paragraphs 9.2 and 9.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 respectively, and making recruitments and promotions in an irregular manner.

### 4.3 Procurement and Contract Process

-----

#### 4.3.1 Procurement

-----

The following observations are made.

- (a) The buildings which had been obtained on rent basis from various areas of the island by the Company for maintaining sales activities, had been secured deviating from the procurement process and rent totaling Rs.476,497,648 had been paid thereon during the year under review.
- (b) In respect of supplying hired vehicles, a sum of Rs.1,562,730 had been paid during the year under review to a hired vehicles supplying institution selected deviating from the procurement process.

### 5. 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.

<u>Areas of Systems and Controls</u>	<u>Observations</u>
(a) Control of Procurement Activities	Guidelines in the Government Procurement Guidelines had not been adopted in the procurement activities.
(b) Human Resources Management	Absence of an approved scheme of recruitment and making irregular recruitments and promotions.
(c) Budgetary Control	An annual budget had not been prepared and therefore, it had not been possible to make use of the same as an effective instrument of management control.
(d) Inventory Control	Action had not been taken to maintain correct inventory records.