

Sri Lanka State Trading (General) Corporation Limited - 2019/2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka State Trading (General) Corporation Ltd (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3.1 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 **Audit Scope**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
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| (a) Paragraph 9.10 of the Public Enterprise Circular No. PED/12 dated 02 June 2003 | Without having treasury approval, transport allowances amounting to Rs.2,966,000 had been paid to the officers recruited on the contract basis. | Allowance have been paid as per the board approval and will adhere to necessary approvals. | Action should be taken according to the circular. |
| (b) Public Enterprise Circular No. PED 2015/1 dated 25 May 2015 | Contrary to the circular provision, transport allowances aggregating to Rs.3,645,000 had been paid to forty seven (47) officers who are not entitled to use official vehicles. | Allowance have been paid as per the board approval and will adhere to necessary approvals. | Action should be taken according to the circular. |
| (c) Public Enterprise Circular No. PED / 57 dated 11 February 2011 | Without obtaining the approval for the advertising program, a sum of Rs.1,397,754 had been incurred as advertising expenses during the year under review. | Annual Action Plan and Budget for 2019/2020 have been approved by the Board of Directors including campaign expenditure. | Action should be taken according to the circular. |
| (d) Public Finance Circular No. 02/2016 dated 12 February 2016 | Without having approval as required by the circular, stock losses amounting to Rs.24,860,434 had been deducted as distribution cost. | According to the Accounting policy of the Institute, a provision for impairment of inventory is established. | Action should be taken according to the circular |

2 Financial Review

2.3 Financial Result

The operating result of the year under review amounted to a loss of Rs.124,798,430 and the corresponding loss in the preceding year amounted to Rs.29,098,206. Therefore deterioration amounting to Rs.95,700,224 of the financial result was observed. Decrease of revenue by Rs.1,020,028,485 had mainly affected to this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

Out of the total debtors amounting to Rs.544,864,153, the value of the debtors outstanding over 5 years was Rs.134,424,207. However, no actions had been taken to recover those outstanding balances by the date of this report.

Management Comment

The outstanding balance represented the amount due from public institutions and STC has taken various actions to recover the debtor outstanding.

Recommendation

Company should take action to recover the outstanding balances.

3.2 Operational Inefficiencies

Audit Issue

Company had reported stock verification variance Rs.1,207,401 in the year under review. This variance was included net of the excess and shortage of stock verification and variance in valuation of stocks. There is no proper mechanism to identify excess and shortage balances separately and loss of the shortage balances had not recovered from the responsible officers.

Management Comment

Answer not submitted

Recommendation

Company should identify stock losses and excesses separately and should find reasons for stock excess and should take action to recover stock losses from responsible parties.

3.3 Defects in Contract Administration

Audit Issue

Although advance payment of Rs.1,805,000 from the total contract value Rs.9,025,000 had been paid on 18 December 2017 to modernize the existing accounting system, only one activity had been completed out of twelve activities agreed in the letter of award as of the date of this report. However, the amount was included in the receivable balance at the end of the year under review.

Management Comment

This amount has been paid to the Scientist Technologies (Pvt) Ltd for computer system upgrades.

Recommendation

Management should take action to modernize the accounting system completely.