

Sri Lanka State Trading (General) Corporation Ltd – 2020/2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka State Trading (General) Corporation Ltd (“Company”) for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

1.3 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 scepticism 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to paragraph 34 of the Sri Lanka Accounting Standards No.16, property, plant and equipment should be revalued at least every three or five years. However, land, buildings, office equipment, computers, tools & equipment and furniture and fixtures cost at Rs.226,240,000, Rs.52,123,790, Rs.38,335,095, Rs.62,579,382, Rs.3,902,500 and Rs.77,861,358 respectively had not being revalued after year 2012. Further, the vehicles valued at Rs.86,209,348 had not ever been revalued.	Due to the significant costs which will be incurred on revaluation, the land and buildings were not be revalued. As suggested quotations will be obtained and evaluated for revaluation and will decide further actions.	Action should be taken as per the standard.
(b) According to the paragraph 41 of Sri Lanka Accounting Standard No. 16, revaluation gain should be transferred to the retained earnings in the case of non-identification of property, plant and equipment. However, no revaluation reserve in respect of the assets disposed were transferred to the retained earnings during the year under review.	Revaluation gain for the year 2020/2021 is Rs.32,000 and noted the comments and will be adhered.	Action should be taken as per the standard.

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| <p>(c) According to paragraph 50 of the Sri Lanka Accounting Standard No: 16 depreciation of property, plant and equipment shall be subject to depreciation on the basis of its effective life time. However, the company had not acted accordingly and in the purchasing and disposal of the assets. Due to the non-compliance with the standard, the depreciation was overstated and net profit was under stated by Rs.705,380.</p> | <p>The workings will be arranged to provide the depreciation according to the standard.</p> | <p>Action should be taken as per the standard.</p> |
| <p>(d) As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful life of the fully depreciated assets amounting to Rs.166,634,752 still in use had not been reviewed and accounted accordingly.</p> | <p>Fixed assets have been fully depreciated but are still in a reusable condition. Some assets have no market value and no economic advantage in revaluation.</p> | <p>Action should be taken as per the standard.</p> |
| <p>(e) According to the paragraph 4 of Sri Lanka Accounting Standard No. 38, computer software should be accounted under the intangible assets. However, assets valued at Rs.14,491,580 had been accounted as property, plant and equipment. Further, net book value of this assets was zero.</p> | <p>Noted the comments and this will be shown separately in the 2021/2022.</p> | <p>Action should be taken as per the standard.</p> |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>Advances received from customers on purchasing of the goods amounting to Rs.52,443,263 had been included as negative balance under the debtor balance. Subsequently these advance balances had not been settled and shown as unidentified balances. According to the age analysis these advances are remained outstanding from 2 to 5 years. However, no action had been taken to settle these advances.</p>	<p>Confirmation letters have been called from customers in 2019 and 2022. Part of the advances had been confirmed and recovered. Action expected to be obtained to write back the unconfirmed advances.</p>	<p>Internal controls over the advance settlement against invoices should be updated and necessary authorization should be obtained to write back the unconfirmed advances.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Cabinet Decision No.CP/20/1909 /313/035 of 22 December 2020	It was planned to build 20 Q-shops at a estimated cost of Rs.50,000,000 by of 21 September 2021 and 8 outlets had been set up. Out of that 5 outlets had been set up by exceeding the estimated cost in the cabinet decision. The exceeded cost was Rs.10,872,604.	The estimate cost has been changed for due to the difficulties in importing construction materials and price changes, changes in design and changes in space volume according to the population.	Cabinet decision should be followed. If price is changed necessary approval should be obtained.
(b) Public Enterprise Circular No. PED / 12 of 02 June 2003			
(i) Paragraph 6.5	The financial statements should be submitted to the Auditor General within 60 days after the end of financial year. However, the company had submitted the financial statements to the audit after six months from the end of the financial year. Further, draft annual report of the year under review should be submitted to the Auditor General along with the financial statements. However, it had not been submitted.	Action will be taken to submit the draft annual report with the financial statements next year onwards.	Requirement of the circular should be followed.
(ii) Paragraph 9.10	Without having treasury approval, transport allowances amounting to Rs.2,170,000 had been paid to 19 officers who had been recruited on contract basis.	Necessary approval process is in progress.	Requirement of the circular should be followed.
(c) Public Enterprise Circular No. PED 1/2015 (i) of 27 October 2016	Contrary to the circular provision, transport allowances aggregating to Rs.3,262,500 had been paid to 44 officers who are not entitled to use official vehicles.	Necessary approval process is in progress.	Requirement of the circular should be followed.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.67,463,939 and the corresponding loss in the preceding year amounted to Rs.119,924,837. Therefore an improvement amounting to Rs.187,388,776 of the financial result was observed. The reasons for the improvement are increase in revenue by Rs.223,116,490 and decrease in distribution and administration expenses by Rs.54,680,755.

2.2 Trend Analysis of major Income and Expenditure items

Revenue had increased by Rs.223,116,490 or 9.9 percent for the year under review over the previous year and the cost of sales had decreased by Rs.123,459,514 or 12 percent. As a result gross profit is increased by 24 percent. Distribution expenses and administration expenses decreased by 39 percent and 5 percent respectively and this was cause to a net profit increase.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The rent amount aggregating to Rs.4,972,320 had been paid during years 2017 and 2018 to the Ministry of Rural Economy for the company's mega showroom without any written agreement. Further, the Company has utilised this building from year 2019 without paying any rent.

Management Comment

From 2019 owner of the building has been informed in several times that an agreement has to be need for payment. However, the Ministry has not yet provided us with the agreement.

Recommendation

Agreement should be signed with the owner.

3.2 Operational Inefficiencies

Audit Issue

The Company had reported a stock variance Rs.2,104,858 in the year under review. This variance was included net of the excess and shortage of stock verification and the variance in valuation of stocks. However, 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

Stock surplus and deficit items are identified separately in stock verification. These excess and shortages occur due to changing brand names and codes. To minimize this, solution will be identified and further action will be taken on the instruction and decisions of the Audit Committee.

Recommendation

Strong internal controls over the stock should be implemented to minimize the variances in stock valuation and shortage in stock balances.

3.3 Procurement Management

Audit Issue

A contractor had been selected to upgrade the accounting system of the company without following the procurement process. However, the company had not entered into an agreement with the contractor in terms of section 8.9.1 of the procurement guidelines. Further, in terms of section 5.4.8 (a) of the procurement guidelines, performance security had not been obtained. Although an advance payment of Rs.1,805,000 had been paid on 18 December 2017, none of the activities of twelve activities agreed in the letter of award had been completed as of the date of this report and the amount was shown as receivable in the financial statements of the year under review.

Management Comment

They agreed to all terms and conditions in the offer letter. 20% of the total cost amounting to Rs.1,805,000 has been paid as advance. Contractor upgraded the existing computer system and completed the transaction process with loyalty cards. From 2017 to 2020 the business has expanded and the process has been changed. Therefore it is noticed by the management that a latest system with upgraded features to be implemented to cater to the new business ventures.

Recommendation

Requirement of the procurement guidelines should be followed. Completion report should be obtained from the independent qualified persons in relevant field to certify the work completed.