

Report of the Auditor General on the Transactions of the Lanka Salusala Company Limited for the period of 13 years of accounts ended 31 March 2022.

The audit of the operations of the Lanka Salusala Company Limited (“Company”) for the period of 13 years ended 31 March 2022 from 01 April 2009 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 for the years 2009/2010, 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015, 2015/2016, 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021, and 2021/2022 to be presented in terms of Section 150 (1) of the Companies Act No.7 of 2007 had not been presented even by the date of this report. My comments and observations on the operations of the Company during the above period which I consider should be reported to Parliament in pursuance of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

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

As per Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16 (2) of the said Act, the annual financial statements in respect of every auditee entity, shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports, within such period as may be provided by rules. In terms of Section 38 (1) (d) of the said Act, the Chief Accounting Officer shall ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity.

1.3 Presentation of Financial Statements

The Board of Directors had not taken action to prepare annual financial statements in terms of Section 150 (1) of the Companies Act No.07 of 2007. Although the financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the expiry of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Company had not furnished financial statements and draft annual report to the Auditor General continuously for 13 years of accounts from the year 2009/2010 to 2021/2022, even by the date of this report.

2 Audit Observations

2.1 Going Concern of the Company

Audit Observation	Comment of the Management	Recommendation
The loss that the company had last presented to the audit for the year ended 31 March 2009 was Rs.72,829,341. The corresponding loss for the year ended 31 March 2008 was Rs.17,402,986. Apart from the outlets at Jawatta and Nugegoda, all other outlets and manufactories throughout the island had been closed down by the year 2022 and the	It had been informed that the company was gaining profits by the year 2021/2022 without provisions of the General Treasury and action would be taken to improve that position.	Financial statements should be presented for audit.

machines remained unused. In terms of financial statements last presented to the audit for the year ended 31 March 2009, the working capital and the net assets had stood at negative values of Rs.407,682,922 and Rs.467,878,681 respectively. Further, in terms of Cabinet decisions taken in the year 2016, a voluntary retirement scheme had been implemented for the permanent employees of the company and 194 employees had been sent on retirement. Nineteen permanent employees and 10 staff members recruited on daily wages basis and on contract basis were in the service by the date of audit.

- 2.2** According to the financial statements presented for the year of accounts 2008/2009, a confirmation on the transactions and the existence of the balances could not be established from the evidence furnished regarding the values indicated against the following items from the year of account 2009/2010 to 2021/2022.

Audit Observation		Comment of the Management	Recommendation
Item	Value (as per the Financial Statements (2008/2009)) (Rs.)		
(a) Property, Plant and Equipment	24,594,955	This is the position prevailed as at 31.03.2009 and this can be further confirmed by the subsequent money receipts and the related documents.	Books, reports and registers should be maintained so as to confirm the transactions and the existence of the balances.
(b) Closing Stock	17,892,200		
(c) Cash and Cash Equivalent	(133,721,396)		
(d) Trade and other debtors	24,966,874		
(e) Trade and other creditors	391,513,554		
(f) Lease rent income	19,170,678		
(g) Investment	7,000,000		
(h) Receivables from related parties	70,134,234		

million. The amount taken into account. given in addition to the capital to maintain the affairs of the company was Rs.70,134,234. This company is currently inoperative.

2.3 Assets, Liabilities, Income and Expenditure

The details on the assets, liabilities, income and expenditure for the year of accounts 2008/2009 stated in the financial statements for the year ended on 31 March 2009.

	Value Rs.
<u>Assets</u>	
Non-current assets	31,594,965
Current assets	165,312,909

Total assets	196,907,874
	=====
<u>Liabilities</u>	
Current liabilities	572,995,831
Non-current liabilities	91,790,725
Capital and reserve	(467,878,682)

Total liabilities	196,907,874
	=====
Gross profit	1,228,565
Other income	21,180,221
Less	(95,238,127)

Total expenditure	(72,829,341)
	=====
Loss of the year	(72,829,341)

The liabilities of the company were observed to have been three times the value of total assets as at 31 March 2009.

2.4 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with Laws, Rules and Regulations are given below.

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Companies Act No.07 of 2007.			
(i) Section 131 (1)	An annual report in the prescribed form had not been handed over to the Registrar of Companies once a year.	Attention will be drawn to the observations stated herein and action will be taken accordingly in the future.	Action should be taken in accordance with the provisions stated in the Act.
(ii) Section 170 (1)	Financial statements together with the audit report had not been handed over to the Registrar of Companies annually.	-Do-	-Do-
(b) Public Enterprises Circular No.PED/12 dated 02 June 2003.			
(i) Paragraph 5.2.4	Annual budgets for the 13 years had not been prepared and furnished to the Line Ministry, Public Enterprises Department and the Auditor General 15 days before the commencement of the year of accounts by obtaining approval of the Board of Directors.	-Do-	Circular instructions should be followed.
(ii) Paragraph 7.4.5	Inventory books of each division of the company had not been maintained and verification of stocks and fixed assets had not been carried out by appointing the boards of survey.	-Do-	Verification of stocks and fixed assets should be carried out annually.
(c) Paragraph 2 of the Public Enterprises Circular No.02/2016 dated 08 March 2016.	In the implementation of voluntary retirement scheme, after the excess employees are forced to accept retirement, a revised cadre should be	-Do-	Circular instructions should be followed.

approved from the Department of Management Services. Nevertheless, action had not been taken accordingly.

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| (d) | Paragraph 05 of the Public Finance Circular No.01/2014 dated 17 February 2014. | The corporate plan and action plan had not been prepared in relation to the prescribed periods in terms of circular provisions. | -Do- | The corporate plan and action plan should be prepared in relation to the prescribed periods. |
| (e) | Section 15 of the Employees Provident Fund Act, No.15 of 1958. | Due to failure to pay the employees provident contribution of Rs.276,865 to an officer for the period from June 2011 to November 2015 and to pay Rs.277,991 to another 8 officers from August to November 2016 on the due date, a sum of Rs.252,178 had to be paid as surcharges in the year 2019. Further, the contribution to the Employees Provident Fund should also be paid before the end of the following month, but there observed 15 instances of defaulting of such payments during the period from 01 April 2019 to 31 March 2022. | -Do- | Contributions to the Employees Provident Fund should be paid on the due date. |
| (f) | Section 27 of the Employees Trust Fund Act No.04 of 1982. | Although the employer's monthly contribution to the Employees Trust Fund should be paid before the end of the following month, a sum of Rs. 100,589 had to be paid as fines due to failure to follow the above requirement. | -Do- | The employer's monthly contribution to the Employees Trust Fund should be paid before the end of the following month |

03. Operating Review

3.1 Management Inefficiencies

The following observations are made relating to 13 accounting years from 2009/2010 to 2016/2017.

Audit Observation	Comment of the Management	Recommendation
a) A project had been implemented by the Ministry of Buddha Sasana and Religious Affairs in the year	Not commented.	All the purchases should be made by

<p>2014 to provide sarees for Dhamma School teachers. Accordingly, the order to supply 40,000 sarees at the value of Rs. 56 million had been accepted, but the purchase had been made on quotations obtained verbally without following the procurement procedure.</p>		<p>following the procurement procedure.</p>
<p>b) Section 05 of the lease agreement stated that a fine equivalent to 25 per cent of the lease rent shall be recovered in case of the lease rent of the land and buildings owned by the Company in Mulleriyawa being defaulted over a period not more than 02 months. Nevertheless, a fine of Rs.266,200 that should have been recovered on the delay in paying the lease rent relating to the accounting year of 2016/17, had not been recovered. At the time of providing the land and buildings on lease, the lease rent had not been decided based on a valuation of the Government.</p>	<p>Not commented.</p>	<p>Action should be taken in accordance with the lease agreement, and the lease rent should be decided upon an assessment of the Government.</p>
<p>c) Following approval given for the Cabinet Memorandum No. 12/1523/553/020 dated 11 October 2012, it had been decided that the land and building of the Company in Unavatuna be vested in Laksala, the 13 employees thereof be forced to accept retirement, and the expenditure thereon totalling Rs. 15.25 million be incurred by Laksala. Nevertheless, that sum had been paid by Laksala to the Corporation of Public Resources Management on 12 December 2012 though, the relevant properties had not been vested in Laksala. But, action had not been taken for the employees to be retired on the same day but a delay occurred until 30 September 2016 thus paying a sum of Rs.13,406,580 as salaries during that period.</p>	<p>Action will be taken to promptly vest the properties in accordance with the decision of the Cabinet.</p>	<p>Action should be taken to vest the properties in accordance with the Cabinet Decision.</p>
<p>d) It had been approved under an assessment of the Government to vest the Ministry of Law and Order with a land of the Company located on Thelawala Road, Ratmalana to establish a Special Task Force camp following the Cabinet Decision No. අම/13/1459/553/012 dated 25 October 2013. Furthermore, 05 lands with buildings were in use after being vested in miscellaneous Ministries and institutions though, those lands had not been vested legally.</p>	<p>This matter is noted down for execution.</p>	<p>Action should be taken in accordance with the Cabinet Decision.</p>
<p>e) A sum of Rs. 2,642,906 had been spent for maintaining the Company and affairs of the Lanka Salusala Limited out of the sum of Rs. 299,259,745</p>	<p>Not commented.</p>	<p>Approval should be obtained prior to utilizing the balance</p>

received from the Ministry of Industries and Commerce on 30 August 2016 in respect of voluntary retirement scheme.

of the sum intended for the voluntary retirement scheme, on other affairs.

- f) According to Paragraph 3.5 of the Public Enterprises Circular, No. 2/2013 dated 11 September 2013, the funds relating to the allocation for gratuity computed annually, should be deposited in an account and when an employee becomes entitled to gratuity, the funds should be paid to him as soon as possible. However, due to failure in doing so, a sum of Rs. 224,739 had been paid as surcharges in the year 2021/2022.
- Making those payments had been delayed due to unfavorable financial position of the institution. The payments were later made in accordance with orders received from the court.
- Funds relating to gratuity computed annually, should be properly deposited in an account.
- g) The production facility in Unavatuna had been given on lease to an external party in the year 2008 under a 30 year lease agreement. As the lease agreement had been breached by the Company, a case had been filed. According to the case, the security deposit of Rs.750,000 furnished by the complainant along with constructions worth Rs.1,141,400, totaling Rs.1,891,400 should have been paid. Nevertheless, both parties had agreed on a sum of Rs.1,357,500, and a sum of Rs.600,000 had been paid in installments from September 2017 to February 2019. However, due to failure in settling the balance over a period of 08 months, the said sum of Rs.1,891,400 had to be paid. As such, an overpayment of Rs.802,968 had been made comprising the initial payment of Rs.600,000, penalties for delay amounting to Rs.65,000 and execution charges for the *pignus praetrium* amounting to Rs.202,750.
- Agreed with the observation.
- All the aspects should be taken into consideration before entering into agreement.
- h) As for the textiles in the main stores, a stock register had not been maintained based on receipts and issue of stocks during the period from 2017 to October 2022, but the receipts and issues had separately been recorded in two registers irregularly, thus observing that the stock register could not be updated by using those 02 registers. Hence, accuracy of the physical stock could not be verified as balances of books relating to each item of stocks could not be obtained.
- A Goods Received Note has already been introduced and stock registers are maintained properly. A software has been installed in order to further avoid such inefficiencies.
- A stock register should be maintained in a manner that book balances relating to each item of stock maintained in the stores, can be obtained.

3.2 Idle and Underutilized Assets

Audit Observation	Comment of the Management	Recommendation
a) Lands in extent of 04 roods and 103.74 perches where there were 09 buildings, located at 07 places out of 24 sales outlets and production plants of the Salusala Company, had remained underutilized without being used for any activity.	Due to a crisis relating to working capital of the institution, many of the asset became underutilized. Action is being taken to commence business activities with assistance of the private sector to ensure proper utilization of those assets.	Lands and buildings should be effectively utilized.
b) A balance ranging from Rs.05 million to Rs.13 million had continuously existed in a current account of Bank of Ceylon over a period of 06 months during the period from October 2021 to March 2022. Action had not been taken to effectively invest those funds in short term investments.	Approval of the Board of Directors has already been obtained to use the excess funds of the current account in short term investments.	Productive investment of funds should be ensured.

04 Systems and Controls

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

Audit Observation	Comment of the Management	Recommendation
a) Due to reasons such as, failure to introduce formal systems for financial control, failure to make essential payments on taxes and loans, failure to maintain the cash book in recording the receipts and payments of cash, and failure to make adjustments of control accounts, the completeness and accuracy thereof could not be examined.	Instructions have been given to the relevant officers to maintain the essential registers, conduct surveys by appointing boards of survey, and identify the areas of other systems and controls for further improvement.	Accuracy should be ensured in systems and controls.
b) Failure to maintain Register of Fixed Assets, failure to conduct surveys on assets by appointing boards of survey, and failure to revalue all the lands including manufacturing plant and sales outlets.		- Do.
c) Failure to take action for recovery of the due loan balances and maintain detailed reports in that connection formally.		- Do