Sri Lanka State Trading (General) Corporation Ltd. - 2021/2022
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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 2022 comprising the balance sheet as at 31 March 2022 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 reported 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 December 2022, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 determines 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 intends 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 Auditor's Responsibilities for the Audit of the Financial Statements

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:

- Appropriate audit procedures were designed and performed 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 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
(a) According to Paragraph 51 of Sri Lanka Accounting Standard 16 related to Property, Plant and Equipment, the useful life of assets should be reviewed at least every financial year and it if differs to the previous estimates, those differences should be accounted for in accordance with Sri Lanka Accounting Standard 08. However, useful life of assets worth Rs. 161,699,007 was not reviewed and accounted for, despite their use after fully depreciation.	There is no market value for fully depreciated computer accessories after three years and it carries no economic benefit in their revaluation. However, it is considered that the fully depreciated assets, which are being used further used, should be revalued. In accordance with LKAS 8.	Action should be taken in accordance with Sri Lanka Accounting Standard.
(b) In the calculation of depreciations for assets in accordance with Paragraph 50 in Sri Lanka Accounting Standard 16, the useful life was not taken into account. Therefore, depreciation for the year under review was overstated by Rs. 1,398,067 and as such, profit was also understated by that amount.	According to the accounting policy of the company, property, plant and equipment are depreciated throughout the year in the depreciation of assets purchased during the year and in the disposal of assets, no depreciation is calculated for the relevant year. Depreciation will be calculated according to the standard in due course.	Action should be taken in accordance with Sri Lanka Accounting Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs. 3,146,639 receivable for the Borella shop from the Ministry of Trade, Commerce and Food Security for the year under review was not accounted for.	Out of the amount spent for the Borella Q shop, Rs. 1,379,052.00 has been reimbursed by the Ministry and it has been accounted for in the year 2022/2023. Action will be taken to account for 5 per cent of the retention money amounting to Rs. 165,613 during the 2022/2023 year of accounts.	Adjustments should be made in accounts.
b) The building rent amounting to Rs. 1,200,000 payable for the Rajawasala Lanka Sathosa Mega Stores in Batticaloa from 01 September 2021 to 31 March 2022 was not adjusted to the accounts and as a result, profit was overstated and current liabilities were understated by that amount.	Since renovation of the Rajawasala Lanka Sathosa Mega Stores in Batticaloa had not been completed, its rental was not paid. We informed the officers of the Food Commissioner's Department about the matter in writing and it was informed that the rental would be paid with the commencement of business in the building. However, their response is yet to be received.	-Do-

1.5.3 Unauthorised Transactions

Description of the transactions without authority.	Comment of the Management	Recommendation
Without approval from the Treasury, a sum of Rs. 2,833,385, Rs. 16,905,960 and Rs. 1,000,000 was paid during the year under review as medical allowances, festival allowances and death gratuity of the employees, respectively, during the year under review and an approved insurance scheme was not introduced for the employees' medical benefits even by 15 February 2023.	Medical allowances, gratuity and death gratuity of the employees have been paid with the approval of the Board of Directors. Bonus has been paid according to the circular issued by the government, with the approval of the Board of Directors	Relevant insurance scheme should be approved to pay benefits.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
The balances that remained unrecovered for 2,3,4,5 years and exceeding 5 years from the trade debtors balance of Rs. 995,268,964 amounted to Rs. 1,703,569, Rs.7,075,827,Rs.15,859,716, Rs.11,326,718 and Rs. 138, 313,142, respectively. Further, sales on credit had been done for the debtors who had not settled the money for the previous sales.	The arrears has been reduced from Rs.7,075,827 to Rs. 3,474,836 as at 28 February 2023 and arrears for the 4th year has been reduced from Rs. 15,859,716 to Rs. 9,540,725.	Action should be taken to recover the arrears.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
Debit balance of Rs. 16,603,289 included in the creditors balance due to returning goods had not been adjusted, despite the lapse of more than 5 years.	The outstanding negative balance for the 2nd year was Rs. 330,005,551 and for the 4th year was Rs. 42,877,578, and the net amount payable from the 2nd year was Rs. 64,207,995. The outstanding balance of that supplier has reduced to Rs. 16,722,557 from 2 years.	In the settlement of debts, the returns should be deducted.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Public Enterprises Circular No.PED/12 dated 02 June 2003			
(i) Paragraph 7.4.5	A physical verification on property, plant and equipment totalled Rs. 914,186,176 was not carried out.	Action will be taken to carry out a physical verification on the fixed assets in 2023/2024. The corporation maintains a register of fixed assets and necessary information regarding the	Action should be taken in accordance with circular provision.

		fixed assets can be obtained from that register.	
(ii) Paragraph 9:8:2	A sum of Rs. 9,978,207 was paid as incentive for the staff without obtaining approval from the Treasury during the year under review.	A new incentive scheme has been formulated instead of the available incentive scheme for the staff and it will be forwarded to the Treasury for approval after submitting it to the Board of Directors for their approval and recommendations.	-Do-
(iii) Paragraph 9.10	After recruiting two individuals as loan collectors without approval from the Treasury, a sum of Rs. 609,727 was paid as commission for the collection of loans during the year under review. Further, despite the recruitment of two loan collectors, a sum of Rs. 26,972,927 was also paid as sales incentive for the collection of loan without the approval from the Treasury. Although the time frame applicable for the collection of loans is 30 days, the incentive for the collection of loan was paid within the period of time permitted for the settlement.	Two loan collection officers have been recruited on the approval of the Board of Directors according to the approved cadre. The collection of loan during the year was Rs. 7,462,236,317 and the commission paid was only Rs. 609,727.	-Do-
(b) Public Enterprises Circular No.PED 1/2015 (i) dated 27 October 2016.	Transport allowance of Rs. 3,099,000 was paid to 43 officers who were not entitled to use official vehicles.	Allowances have been paid on the approval of the Board of Directors and it is in compliance with the necessary approval.	Action should be taken in accordance with the circular.

2. Financial Review

2.1 Financial Result

The operations of the Corporation for the year under review resulted in profit of Rs. 472,717,911 as compared with the corresponding profit of Rs. 60,381,809. Accordingly, an improvement of Rs. 412,336,102 was observed in the financial result. This improvement was mainly due to a decrease in the proceeds from the sale of essential goods by Rs. 4,312,867,229, proceeds from the sale of other items by Rs. 1,760,708,399 and a decrease in the financial expenses by Rs. 34,593,635, although sales cost had increased by Rs. 5,683,163,034 during the year under review compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Although a shortage of stocks worth Rs. 8,968,178 was reported during the year under review on the stock verification as at 31 March 2022, no action was taken to recover that shortage from the responsible officers.	The process will be prepared in 2022/2023 and further action will be taken to recover the dues from the responsible officers on the instructions given by the Audit Committee.	Stock control should be managed properly.
(b) The unusable stock as at 31 March 2022 was Rs.23,868,673 and the company had not taken steps to dispose of the stock. Stocks worth Rs. 22,361,510 or 93.6 per cent of the above stock value remained in stores for more than one year.	It has reduced by Rs. 9,940,880 by February 2023 and Rs. 7,867,835.83 of the stock value exceeding one year has been reduced. Further, the institute will take steps to dispose of the items, which unfit for use, under the approval of the Board of Directors on the instructions of the Audit Committee.	Stock control should be properly managed and necessary measures should be taken to dispose of the unusable stocks.

3.2 Operationel Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Although operations of the Q-Shop constructed at the Borella bus stand was not commenced in the year 2022, rental amounting to Rs.3 lakhs was paid from 09 February to 09 December 2022.	It has been agreed to make payments for the Q-Shop constructed at the Borella bus stand from 01 November 2021 to 30 November 2026. Since it was scheduled to be opened before the end of March 2022, lease rent was paid from January 2022. It was instructed	Operations should be efficiently carried out by the Management.

	at the meeting held on 04 January 2023 in the Ministry that the operations of the Q-Shop network be entrusted to the CWE and accordingly, arrangements are being made to hand over the Borella Q-Shop to the CWE.	

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
(a) Information technology equipment worth Rs. 280,732,185 was purchased contrary to Sections 2.7.4, 2.7.7, 2.8.1 (a), 5.3.10(a) and 9.1.2 (d) of the Government Procurement Guidelines.	The shopping method is used to purchase items to resale and every possible effort has been made to ensure transparency by using technology and coordinating with the international manufacturers and brand owners.	Action should be taken in accordance with the provisions of the Government Procurement Guidelines.
(b) An agreement for an estimated value of Rs. 47,725,462 was entered into with CWE Construction and Engineering Pvt Ltd for the contract relating to the construction of Rajawasala Lanka Sathosa Mega shops. An expenditure estimate was not prepared and approved for this purpose as per Guidelines 4.3.1 and 4.3.2 of the Procurement Guidelines. Further, performance bonds were not taken as required by Guideline 5.4.9 of the Government Procurement Guidelines, and action was not taken in accordance with Guideline 8.12.1.	The CWE Construction and Engineering Pvt Ltd, the institute that was awarded the contract, had not prepared a cost estimate and got approval as per Sections 4.3.1 and 4.3.2, and certified works of the bills as per Section 8.12.1. The awardee of the contract has obtained performance security from the sub-contractor as per Section 5.4.8.	The procurement process should be followed in relation to the awardee of the contract.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
Although financial statements should be furnished to the Auditor General within 60 days from the end of the financial year as per Section 6.5 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Company had furnished financial statements to the Auditor General after 06 months from the end of the financial year.	Since employees did not report to the service due to Covid 19 situation and fuel crisis, annual financial statements could not be furnished within 60 days.	Accounts should be furnished within 60 days from the end of the year of account.