

Transaction report of the Lanka Salu Sala Limited -2023/ 2024

The audit of the operational activities of the Lanka Salu Sala Limited (Company) for the year ended 31 December 2024 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 the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented to the parliament appear in this report.

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

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16(1) of National Audit Act No.19 of 2018. The annual financial statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual performance report of such instances as may be specified by the rules in terms of Section 16(2) of the Act. It should be ascertained to prepare annual reports and other financial statements within the required time period in terms of Section 38(1)(d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the annual reports related to the entity which was being audited to parliament.

2. Financial Statements

2.1 Presentation of Financial Statements

According to Section 6.5.1 of the State Enterprise Circular No. PED/12 dated 02 June 2003, and Section 6.6 of the Operational Manual for State Enterprises issued by the State Enterprise Circular No. 01/2021 dated 16 November 2021, the financial statements and annual reports approved by the board of directors of the company for the financial years from 2010/2011 to 2023/2024 should have been submitted to the Auditor General within 60 days of the end of the financial year. However, as of the date of this report, these financial statements and annual reports have not been submitted for audit.

2.2 Assets, Liabilities, Income and Expenses

The details of assets, liabilities, income, and expenses as shown in the financial statements prepared by the companies for the financial year ending 31 March 2010, are as follows.

<u>Assets</u>	<u>Value (Rs.)</u>
Non- Current Assets	25,872,950
Current Assets	249,749,110
Total Assets	<u>275, 622,060</u>

<u>Liabilities and Equity</u>	
Current Liabilities	600,227,603
Non-Current Liabilities	42,756,078
Capital And Reserves	(367,361,621)
Total Liabilities and Equity	<u>275,622,060</u>
Total Revenue	231,205,038
Total Expense	(150,993,210)
Profit for the Year	80,211,828

3. Audit Observations

3.1 Going Concern of the Company

Audit Observation	Comments of the Management	Recommendation
(a) As at 31 March 2010, liabilities of the company were more than double its total assets, and the amount by which current liabilities exceeded current assets was Rs. 350,478,493. Consequently, the going concern of the organization had been under threat, but the management had not been paid adequate attention to this issue.	The comments had not been made.	The management should take steps to ensure the going concern of the company.

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| (b) | The company had been recorded a profit of Rs. 80,211,829 in the last financial year ending 31 March 2010, including a profit of Rs. 83,633,328 from the sale of land and property, as presented in the most recent audit. However, as of 31 March 2010, the working capital of the company had been received a negative value of Rs. 350,478,493. Accordingly, under Section 220 of the Companies Act, the board of directors had not been taken the necessary actions to ensure the going concern of the company. | The comments had not been made. | The working capital should be managed. |
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3.2 Maintaining Account Books and Records

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The stock records, which report on orders received and completed by the sewing department, as well as stock receipts and issues, had not been updated up to date for a long time.	The comments had not been made.	The records documenting stock receipts and issuances should be maintained and updated regularly.
(b) The registries related to whole stock purchases and sales, registries of debtor and creditor accounts, inventory books, tax and rent registries, and fixed asset register have not been maintained for a long time.	The comments had not been made.	The registries related to stock purchases and sales, registries of debtors and creditors, and other necessary registries should be properly maintained.
(c) Cash books, ledger accounts, and bank reconciliation reports were not submitted for audit, and it was not confirmed that all transactions since April 2024 had been entered into the financial information system.	The comments had not been made.	All the transactions should be entered into the financial information system. The necessary books and reports for the audit should be submitted without delay.

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| (d) | Records to identify the outstanding rent and taxes payable by the company for the lands and buildings in Ampara, Anuradhapura, Angunakolapelessa, Gothatuwa, and Badulla areas, which were taken on lease, had not been maintained. | The comments had not been made. | The records should be maintained in a manner that allows for the accurate identification of outstanding rent and taxes. |
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3.3 Non- Compliance with Laws, Rules, and Regulations and etc.

The incidents of non- compliance with laws, rules, and regulations are as follows.

Reference to Laws, Rules, and Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(a) Companies Act, No. 07 of 2007			
(i) Section 131 (1)	The company had been failed to submit the annual reports (Form Number 15) to the Registrar of Companies for 10 years since 2014.	The comments had not been made.	According to the Companies Act, annual reports should be submitted to the Registrar of Companies.
(ii) Section 170 (1)	Since the year 2004, for a continuous period of 20 years, the financial statements along with the audit report had not been submitted annually for registration to the Registrar of Companies.	The comments had not been made.	According to the provisions of the Companies Act, financial statements should be submitted to the Registrar of Companies for registration.
(b) Section 21 of the Value Added Tax Act No. 14 of 2002	Regarding the sales of the company, the amount of Rs. 776,867 collected during the 2023/2024 financial year and the Value Added Tax amounts collected for previous years had not been remitted to the Department of Inland Revenue.	The comments had not been made.	The collected tax amounts should be remitted to the Department of Inland Revenue without delay.
(c) Amended Financial Regulations 371 (2)	Although the maximum advance payment limit for an	The comments had not been	The advances should be provided within the maximum

(b) by Public Finance official is Rs. 100,000, made. limit and properly accounted for.
 Circular No. 01/2020 there were 11 incidents where
 dated 28 August 2020 advances ranging from Rs. 115,632 to Rs. 701,091 were observed and the issued interim advances and deposits had been recorded in the cash book as cash in hand instead of being accounted for properly.

(d) Introduced by the Public Enterprise Circular No. 01/2021 dated 16 November 2021,

(i) Sections 2.3 and 2.4 of the guidelines for the integrated management of public enterprises
 The strategic plan, action plan, and budget estimate for the year 2023/2024 had not been prepared and approved, and the statements that should be provided by the directors of the company had not been submitted annually to the Secretary of the Board of Directors.
 The comments had not been made.
 The actions should be taken to prepare and approve the strategic plan, action plan, and budget annually. Actions should be taken to obtain the statements that need to be provided by the directors.

(ii) Operations manual for Public Enterprises

(1) 6.1 Section

Due to the lack of close supervision by an accountant regarding the financial activities from 30 October 2023 to September 2024, accurate and up to date financial information had not been reported.
 The comments had not been made.
 Immediate actions should be taken to establish proper supervision and control over financial activities.

(2) 6.7 Section

Annual verification of inventory and fixed assets in the warehouse and sewing section had not been carried out for a long time.
 The comments had not been made.
 The annual verification of fixed assets and inventory should be conducted.

(e) Section 3.1 of the guidelines No. 06 issued under the paragraph 1.1.2 of Part II of the Public Finance Circular No. 01/2020 dated 28 August 2020.	Out of the Rs. 1,281,229 in sales made via Credit/Debit Card during the 2023/2024 financial year, only Rs. 839,615 had been credited to the bank account. Further, direct transfers of Rs. 109,322 to that current account had not been identified.	The comments had not been made.	The actions should be taken to identify and account for deposits and withdrawals made to the bank in the name of the company. It should be ensured that debit and credit transactions are accurately recorded in the bank accounts.
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4. Operational Review

4.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the Cabinet decision dated on 25 October 2013, numbered CP/13/1459/553/012, although the company owned land located on Thelawala Road, Ratmalana, with a government-assessed value of Rs. 100 million, measuring 1 acre, 03 rood, and 34 perches, had been handed over to the Ministry of Law and Order within the same year., the legal transfer had not been made, and financial compensation had not been received for the asset as well.	The comments had not been made.	The actions should be taken to legally transfer the land ownership and it should be collect the necessary payments to settle the transactions.
(b) One of the two buildings located in Mulleriyawa had been leased to a private institution from 15 January 2007 to 14 January 2022, with an initial monthly rent of Rs. 80,000, which had been increased to Rs. 117,128 by January 2022. After the lease period ended and nine months had passed, the building had been re-leased on 24 October 2022, for a monthly rent of Rs. 65,000 for five years. However, the reasons for reducing the rent compared to the previous agreement were not disclosed, and rental assessment report had not been obtained.	The comments had not been made.	Steps should be taken to cancel the existing lease agreement and renegotiate a new agreement. The building should be assessed for its value before entering into a lease agreement. Since entering into a long-term agreement of 5 years causes losses, actions should be taken against the officials who approved this decision.

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| (c) | On 11 October 2012, the Cabinet had been decided to transfer a 1 acre, 30.6 perch land with buildings in Unawatuna owned by the company to Lak Sala and in 2009, the minimum value of this property had been assessed at Rs. 16 million. Although Lak Sala paid Rs. 15,248,575 for it in the year of 2012, the property had not been transferred by the end of the year 2023. Meanwhile, without a new assessment, the company sold the property to the Industrial Development Board of Ceylon for Rs. 25 million in the year of 2023 and had been deposited the money in two fixed deposits for three months. One fixed deposit of Rs. 10,000,000 had been withdrawn before maturity without the approval of the Board of Directors and Rs. 5,000,000 from it had been spent on payments of salaries and purchasing of clothes. | The comments had not been made. | The actions should be taken to assess Government lands before being sold. Actions should be taken to settle any outstanding payments to external parties and obtain the approval of the Board of Directors when converting fixed deposits into cash. |
| (d) | Although an agreement was reached on 11 August 2022, to operate a production facility with three buildings on a 1 acre, 1 rood, and 39.5 perch land in Galagedara as a joint project with the Department of Handicrafts of the Central Provincial Council, the project had not been implemented according to the agreement by 31 March 2024. | The comments had not been made. | The actions should be taken to implement the agreed projects and to generate income and to optimize effective asset utilization. |
| (e) | Although the building owned by the company in Ratnapura had been leased to two state corporations, the lease agreements were not submitted for audit, and it could not be confirmed from the records that the rent was being collected as stipulated. | The comments had not been made. | The lease agreements should be submitted for audit, and records of rent collections should be maintained properly. |
| (f) | Of the five processing mills purchased from the Department of Textiles for Rs. 6 million in 1991, the ownership of the property in Meegoda, consisting of 3 roods and 9.4 perches with buildings, and the property in Kalutara Nagoda, covering 1 acre, 2 roods, and 33.5 perches, had not been transferred to the company. Due to the company's failure to secure ownership of those properties, they had been later transferred to | The comments had not been made. | The company should take actions to properly acquire and confirm ownership of its lands and properties. |

the Ministry of Education and the Ministry of Health, Nutrition, and Indigenous Medicine, respectively.

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| (g) | Although the lease agreement for the power workshop building in Talangama had been expired on 07 June 2016, the building had been used by the institution without a lease agreement for over 8 years. Due to the incorrect reporting of rental income, it was not possible to determine the amount of outstanding rent. Additionally, the file containing all the documents related to this property had been taken by the former accountant on 17 November 2022, but the company had not taken any action regarding this. | The comments had not been made. | The actions should be taken to renew the lease agreements within the stipulated time, and rent income should be properly accounted for. A proper investigation should be conducted regarding the carrying of the file, and those at fault should be penalized in accordance with disciplinary procedures. |
| (h) | A land with a size of 1 rood and 18 perches, located in Gothatuwa, has been leased by the Salusala Company as interim with the approval of the Land Commissioner for a period of 50 years starting from 01 January 1975. Although the ownership of the land obtained under the interim lease had not been transferred to the company, the company had been incurred the expenses for the construction of buildings. Subsequently, without the approval of the Land Commissioner, the land had been again leased on a temporary basis to a private institution from the year 2008 to 2021. The institution had not been paid the lease payments after the year 2011, and by the date of the report, actions had not been taken to confirm whether the leasehold rights of the land had been transferred or to recover the outstanding rent or the expenses incurred for the construction of buildings. | The comments had not been made. | The actions should be taken in accordance with lease agreements. Actions should be taken to settle the leasehold rights and recover outstanding rent, and to collect the appropriate amounts from the relevant parties based on the assessed value of the buildings. |
| (i) | The company had been leased out a building located in Ampara to a private institution for a monthly rent of Rs. 60,000 without obtaining lease assessment, from 16 February, 2023, to 15 February 2033. | The comments had not been made. | The property appraisal reports should be obtained when entering into lease agreements. |
| (j) | Although the 01 rood land and two story building in Angunakolapalassa owned by the Mahaweli Authority had been acquired | The comments had not been made. | The assets should be utilized effectively. |

on lease for a showroom, it was still underutilized as of the audit date.

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| (k) | Although two buildings located on an 18.5 perch leased land in Badulla had been handed over to the Ministry of Cultural affairs, but documents were not presented to confirm this. | The comments had not been made. | The documents related to land ownership and transfers should be submitted for audit. |
| (l) | The land in Kurunegala, which was leased by the Land Commissioner on 19 June 1974, had been leased out to a joint business venture for the period from 15 March 2022, to 15 March 2034, without the approval of the Land Commissioner and without government assessment. | The comments had not been made. | The land should be leased after obtaining the approval of the Land Commissioner based on a lease assessment. |
| (m) | The outstanding lease rental amount of Rs. 323 million for the head office of the Salusala company premises had not been paid up to the year of 2015. | The comments had not been made. | The actions should be taken to accurately identify and settle the outstanding lease rental dues. |
| (n) | A warehouse in the Jawatta premises, owned by the Divisional Secretary, had been leased by the company to a third party for a monthly lease rent of Rs. 50,000 from 31 July 2024, without the approval of the Divisional Secretary and the lease assessment and a competitive price inquiry had not been conducted during the leasing process. According to the agreement, a security deposit of Rs. 150,000, equivalent to rent of three months had been obtained through an undated cheque. Additionally, information regarding the actions taken concerning the stock of clothes in the warehouse at the time of handing it over to the lessee had not been submitted for audit. | The comments had not been made. | The actions should be taken to conduct lease through lease assessment and competitive price inquiry when leasing buildings. Information regarding the stock of clothes in the warehouse should be submitted for the audit. The security deposit should be obtained either in cash or as a bond. |
| (o) | As of the year 2023/2024, out of the 11 sales outlets owned by the company and leased, only the outlets in Jawatta and Nugegoda were in active condition and five outlets had been leased out. One outlet had been released to other ministries, one had been closed, and two had been sold. The company owned two production factories had been closed and two had been sold, | The comments had not been made. | Steps should be taken to efficiently manage the sales outlets of the company which are in active condition. |

while two had been released to other ministries; 01 group project was integrated with the Department of Textiles of Central Province, and 04 factories had been leased out. From the leased factories, two factories had been defaulted on lease rental payments.

- (p) The outstanding lease rental amount of Rs. 362 million for the head office premises of the company had not been paid. The comments had not been made.

4.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) From the 879 shirts manufactured in March 2024 at the company's expense and they were not provided under the Salu Sala brand name but had been provided under two brand names of the manufacturing institution. By August 2024, 652 of these shirts were still in the showrooms, and a physical inspection revealed that some shirts had not been of saleable quality.	The comments had not been made.	The actions should be taken to increase sales through quality products under the brand of the company.
(b) In the year 2023/24, sales of Rs. 903,309 had been made from mobile sales booths held at 13 locations. Reports had been not maintained regarding the stock taken for sale and the remaining stock and according to a sample inspection conducted on three occasions, the expenses associated with total sales of Rs. 284,510 had been Rs. 441,645, therefore profit had not been from the sales.	The comments had not been made.	The sales should be conducted in a manner that covers costs and generates profit.
(c) Although sales from order deliveries amounted to Rs. 20,974,725 in the year of 2022/23, only Rs. 6,178,791 in sales had been made from 31 orders in the year of 2023/24. Accordingly, it had been shown a 70 per cent decrease in stock sales revenue.	The comments had not been made.	The actions should be taken to increase the sales revenue through marketing strategies.
(d) The total stock of remaining fabric pieces purchased for orders received over several	The comments had not been made.	The sales should be conducted with proper management.

years from a department had been sold in two instances: 2,800 meters at Rs. 225 per meter and 3,244 meters at Rs. 160 per meter, respectively. In the first instance, the failure to correctly identify the available fabric stock led to a reduction in the selling price during the second sale by Rs. 65 per meter compared to the first sale, therefore it had been incurred a loss of Rs. 210,885. Furthermore, an additional expense of Rs. 98,244 was incurred for publishing tender advertisements on two occasions for the second sale, therefore it had been incurred a total loss of Rs. 309,129.

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| (e) | The two main sales showrooms had been established by the company, in Jawaththa and Nugegoda, and had the opportunity to attract customers by showcasing modern fabric designs. However, due to the failure to adopt strategies to refresh the showrooms, such as displaying new patterns or exchanging stock between the two existing fabric display showrooms. As a result, it had been led to a decline in the customer attraction as the same fabric designs were displayed in the showrooms for several years. | The comments had not been made. | The actions should be to increase sales revenue by utilizing marketing techniques and strategies. |
| (f) | The decline in showroom sales had been primarily influenced by the fabric orders ordered by showroom managers were not being delivered from the head office to the showrooms, the reduction in the purchase of new fabrics, and the lack of attention to increasing the number of days and hours the showrooms were open during festive seasons. | The comments had not been made. | The attention should be directed towards adopting competitive strategies to increase sales. |
| (g) | Although an expenditure of Rs. 217,617 had been incurred in the year of 2022/23 for the promotion of online sales, online sales have not yet been initiated. | The comments had not been made. | -Do- |

4.3 Idle or Underutilized Assets

Audit Observation	Comment of the Management	Recommendation
(a) A building of approximately 3,750 square feet located in Mulleriyawa which had not been used since the year of 2003, and it had been leased to a private company on 14 October 2022. However, as of September 2024, the building remained not in operation.	The comments had not been made.	The assets should be utilized with maximum efficiency.
(b) A building with an area of 8,258.4 square feet and a land plot of 1 rood 16 perches, located near the main road in Beruwala, has remained unused for more than 15 years.	The comments had not been made.	-Do-
(c) Out of the 74 sewing machines in the sewing and curtain fabric section of the company, 54 machines were not in active condition. In the year of 2022/23, Rs. 194,410 had been spent to repair 20 machines. However, due to the lack of a proper plan for utilizing these machines in the production process, they remained unused.	The comments had not been made.	A suitable plan should be developed to maximize the utilization of the company's assets of the company and to generate income.
(d) Under the voluntary retirement scheme, a court case had been filed in the Industrial Court and Labour Department by an employee who had retired by requesting the repayment of an incorrectly reduced amount of compensation and gratuity paid in 2016. In the of 2023/24 year, based on the ruling in that case, the company had been required to pay back the amount of Rs. 219,137 that had been underpaid.	The comments had not been made.	The actions should be taken against the responsible officers for incorrectly calculating and paying compensation and gratuity, and the loss should be recovered.