

Transaction report of the Lanka Sathosa Limited Company - 2023.

The audit of the operational activities of the Lanka Sathosa Limited Company for the year ended 31 December 2023 was carried out under my direction in pursuance of provision 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 on which I consider should be presented to parliament appear in this report.

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

In terms of Section 16(1) of the National Audit Act No 19 of 2018, each audit entity should maintain proper books and records of all its own income, expenditure, assets and liabilities to enable annual and periodic financial statements to be prepared on that entity. 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 reports of such instances as may be provided by the rules in terms of section 16(2) of the Act. The Section 38(1)(d) of the said Act requires to ensure the preparation of annual reports and other financial statements within the required time period and the Chief Accounting Officer should be responsible for presenting of the annual reports pertaining to the entity which was being audited to the parliament.

2. Financial Statements

2.1 Presentation of Financial Statements

Although the Financial Statements and Draft Annual Report should be submitted to the Auditor General within 60 days of the end of the accounting year in accordance with Section 6.6 of the Operations Manual for the Public Enterprises published by the Public Enterprise Circular No. 01/2021 dated 16 November 2021, the Financial Statements relevant for the year 2023 had not been submitted to the audit even as at the date of this report.

2.2 Assets, Liabilities, Income and Expenditure

The details of assets, liabilities, income and expenditure shown in the Financial Statements for the year ended 31 December 2022 last prepared by the Company are given below.

Item in the Financial Statements	Value Rs.
<u>Assets</u>	
Non-Current Assets	1,342,493,078
Current Assets	10,832,852,647
Total Assets	12,175,345,725

Equity and Liabilities	
Equity	(12,609,839,767)
Liabilities	
Non-Current Liabilities	7,004,439,540
Current Liabilities	17,780,745,952
Total Liabilities	<u>24,785,185,492</u>
Total Equity and Liabilities	12,175,345,725
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Total Income	57,545,655,142
Total Expenditure	57,581,079,656

Surplus/(Deficit)	(35,424,514)
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According to the above information, as of 31 December 2022, the company had total assets of Rs. 12,175,345,725 and total liabilities of Rs. 24,785,185,492, resulting in a situation of uncertainty regarding its going concern as total liabilities exceeded total assets by Rs. 12,609,839,767.

3. Audit Observations

3.1 Absence of written evidence for audit

Audit Observation	Comments of the Management	Recommendation
(a).The written evidences regarding communication equipment worth of Rs. 3,642,843 being transferred from the Cooperative Wholesale Establishment in the year 2005 were not submitted to the audit and not recorded even in the fixed assets register.	Any evidence could not be found regarding the communication equipment being transferred from the Corporation in 2005, and action will be taken to verify the overall fixed assets in the future to update by entering the fixed assets register.	Steps should be taken to maintain the fixed assets register accurately and up-to-date, and the action should be taken against the officers those who accountable for maintaining the fixed assets register up-to-date.
(b) Governance committees had been established for strengthening the internal control of the institution. However, information of their performance was not submitted to the audit.	Agreed. Information regarding this will be submitted in the future.	Information related to performance evaluation should be submitted to the audit.

3.2 Non-compliance with laws, rules and regulations

Instances of non-compliance with the laws, rules and regulations are stated below.

Reference to laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 8(2)(a)(ii) of the Employees' Provident Fund Act, No. 15 of 1958 and Section 16(i) of the Employees' Trust Fund Act, No. 46 of 1980	573 number of daily wage paid employees working in the outlets of the company had not being registered and paid contributions to the Employees' Provident Fund and Employees' Trust Fund as at 31 December of the year under review.	All employees those who are working on a permanent and contract basis in the company are paid EPF and ETF as prescribed manner.	Daily wage earners must register for the funds and make contributions in accordance with the Acts.
(b) Operational Manual for public Enterprises published by public Enterprises Circular No. 1/2021 dated 16 November 2021			
(i) Paragraph 3.2	As Performance allowances had been paid totaling of Rs 3,292,500 by Rs. 75,000 per month to 05 Deputy General Managers and Chief Executive Officer and totaling of Rs. 2,500,000 as interim allowances to 10 Officers on the approval of the board of directors without the approval of the Management Services in the year under review.	The approval of the Department of Management Services had not been obtained and relevant payments have been made with the approval of the Board of Directors.	Approval from the Department of Management Services should be obtained to pay allowances as per the circular.
(ii) Paragraph 3.5	An officer of the company had been temporarily attached to the line	This officer has reported back to the	Action should be taken in

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| | ministry from the date of 23 May 2022 without the approval of the Cabinet of Ministers, and salaries and allowances amounting to Rs. 2,536,254 had been paid from that date to the audited date of 31 March 2024 and that amount had not been recovered from the ministry. | company from the date on 22 September 2024. Action will be taken not to release the employees to another institution without cabinet approval in future. | accordance with the provisions of circular when releasing officers to other institutions and steps should be taken to recover the paid salaries and allowances. | |
| (c) | Paragraph 2.3 of the Guidelines for the Corporate Governance of public Enterprises published by public Enterprises Circular No. 1/2021 dated 16 November 2021. | Although the five-year strategic plan, annual action plan, and annual budget estimate should be submitted to the Treasury 15 days before the commencement of the relevant year, the said plans had not been prepared and submitted to the Treasury in accordance with the provisions of the guidelines pertaining to the year 2023. | Agreed.
The strategic plan, annual action plan and annual budget estimate for the year 2025 are being prepared and will be submitted to the Treasury after approval by the Board of Directors. | Action should be taken to prepare and submit the strategic plan, action plan and budget to the Treasury as per circular provisions. |
| (d) | Public Enterprises Circular No. PED 01/2015 dated on 25 May 2015. | An amount of Rs. 2,807,083 has been paid during the year 2023 as transport allowances to 19 officers holding MM 1-1 category posts who were not eligible to have vehicles assigned to them for official and private purposes or use the official vehicle or to avail a monthly transport allowance. | The Board of Directors has approved Rs. 12,500 as transport allowance for two officers who served under the MM 1-1 salary code in the year 2010. | Transport allowances should be paid as per circular provisions and the amounts paid to officers who are not entitled to transport allowances should be recovered. |
| (e) | Paragraphs 6.2 and 6.4 of Public Finance Circular No. 01/2020 dated 28 August 2020. | A consultant had been appointed for obtaining licenses for the liquor outlets operated by the company. Such service should have been obtained as an emergency service on a short-term basis not exceeding 90 days as per the circular and the maximum allowance of Rs. 150,000 should be paid upon the personal approval of the Secretary to the Ministry after completion of the respective task. However, contrary to the circular instructions, a monthly allowance of Rs. 100,000 as well as | This consultant has resigned from service and in the future, consultants will be recruited as per the public finance circulars. | Appointment and payment of Consultants should be done as per the circular provisions. |

casual allowances and an allowance of Rs. 25,000 per one liquor license obtained had been paid to the consultant without the approval of the Treasury upon the approval of the Board of Directors. Accordingly, an amount of Rs. 3,496,789 had been paid from June 2022 to May 2024 contrary to the circular commands. Further the service of this consultant had been extended on 6 occasions and Treasury approval had not been obtained for that too.

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| (f) | Management Services Circular No. 05/2017 dated on 25 October 2017. | Although the monthly professional allowances should be payable based on the service period to senior level officers of state-owned companies, 06 officers have been overpaid by Rs. 493,367 in the year 2023 due to the payment of a monthly allowance of Rs. 10,000 contrary to those restrictions. | Payments have been done based on the approval of the Board of Directors. | Professional allowance should be paid in accordance with the provision of the circular and over-payments should be recovered. |
| (g) | Letter No. DMS/1741 dated on 16 May 2017 from the Director General of the Department of Management Services. | Although the approved monthly allowance for the Chief Executive Officer and Deputy General Managers were Rs. 95,000 and Rs. 90,000 respectively, a monthly allowance of Rs. 250,000 was paid to the Chief Executive Officer and Rs. 150,000 to the Deputy General Manager with the approval of the Board of Directors. Accordingly, the amount paid in excess to the Chief Executive Officer and the Deputy General Manager in the year 2023 were Rs. 1,860,000 and Rs. 2,094,400 respectively. | Having determined that salary scale adequate to decisions made and responsibilities inherent to the assigned duties, the Board of Directors has decided to increase the basic salary of the Deputy General Manager and the Executive Officer by Rs. 150,000 and Rs. 250,000 respectively. | Only approved allowances of the Management Services Department should be paid. Over payments should be recovered. |

4. Operational Review

4.1 Non-Economic Transactions

Audit Observation	Comments of the Management	Recommendation
More than 175 telephone connections were not in working condition out of the over 200 landline telephone connections at the head office and Rs. 10,588,673 had been paid as telephone charges to Sri Lanka Telecom in the year 2023. Action had not been taken to disconnect inactive telephone connections or resort to another option.	Necessary actions will be taken to conduct a survey in this regard in the month of January 2025.	Action should be taken to activate or disconnect inactive telephone connections.

4.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) A private company has been selected and being incurred of Rs. 201 million in the year 2021 to expand the integrated Enterprise Resource Planning (ERP) system of the company. No feasibility study had been conducted regarding this procurement process and final system audit and user acceptance testing of the Information and Communication Technology Agency of Sri Lanka (ICTA) has not been done even as at the audited date of 07 May 2024 when making payments to the contractor. An amount of Rs. 30,559,286 had been paid as maintenance cost of the system in the year 2023, where the system has not been taken over to the company after the end of warranty period as per the agreement. Further It was also observed that the payroll management and budgeting functions of the company could not be performed through this system.</p>	The 10% retention amount payable to the contractor will be released upon conducting of the final system audit and user acceptance testing in the coming period. Steps will be taken in the future to take over the ERP system to the Information Technology Division of the company. Although ICTA was handed over, it has been informed that salary management and budgeting cannot be done.	After determining the requirement of the company feasibility studies should be conducted before starting projects. Action should be taken to transfer system to the company and conduct the system audit. Action should be made to adapt the system to enable the perform tasks such as salary management and budgeting.
<p>(b) The contractor who implemented the existing system had been paid Rs. 83,000,000 at the time of commencement of the implementation of the above new system and the contract had been terminated without a work completion report. An amount of Rs. 7,656,904 had been incurred on the case filed against the company by the former contractor for termination of the contract without informed by the end of the year under review.</p>	Steps have been taken to realize the performance bond of Rs. 19,817,578 provided by SOFT WATCH institute in this regard through cheque number 471504. Thereby action has been taken to minimize the loss incurred by the institution.	Since it appears that the termination of the contract was done negligently, thereby steps should be taken to recover the loss caused by this from the responsible party.
<p>(c) A total cost estimate had not been prepared as per 4.3.1 (a) of the Government Procurement</p>	The estimated price for the 02 phone models has been mentioned along	Action should be taken against

Guidelines when procurement of 315 mobile phones incurred by Rs. 5,112,850 to give gifts for a sales promotion program and to provide them to the employees of the institution and no approval has been obtained from the Technical Evaluation Committee for bidding documents including specifications as per 2.3.2 (c). Further bid security and performance security were not mentioned in the bidding documents as per guidelines 5.3.11 and 5.4.8 and a formal contract agreement had not been entered into with the supplier as per the guidelines 8.9.1.

with the request made for this procurement. At present, as the procurements have to be done under a minimum time limit, the approval of the bid documents by the Technical Evaluation Committee is done only for the procurements called under the National Competitive Bidding. Contract agreements have not been entered into with suppliers for this procurement. No bid security or performance bond has been obtained for procurements called under the shopping method.

officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.

(d) In the procurement of supply and installation of supermarket baskets and shelves for the Kottawa Mega Outlet of the company, the specifications and bid documents had not been reviewed and approved by the Technical Evaluation Committee in accordance with Procurement Guidelines 2.6.1 (a) (ii) and (iv).

The specifications confirmed by the relevant technical knowledgeable officer of the requesting division for this procurement have been given with the approval of the Chief Executive Officer.

Action should be taken against officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.

(e) A total cost estimate has not been prepared in accordance with Procurement Guidelines 4.3.1 (a) and the procurement method was not determined in accordance with 2.11.1 (c) where the company purchased 15 laptops for Rs. 2,354,000. Information on bid security and performance security had not been mentioned in the bidding documents as per paragraphs 5.3.11 and 5.4.8 and also, a formal contract agreement had not been entered into with the contractor in accordance with guideline 8.9.1.

Approval of the Chief Executive Officers is obtained for preparing an estimated value for each procurement that is not included procurement plan in the beginning of the year and the procurement method is determined according to the nature of the procurement subject to the limitations of 2.14.1 of the Procurement Guidelines so as not to harm for the transparency of the procurement where purchasing fixed goods and services for urgent needs required for the daily operations of the company. Bid security and performance security have not been obtained for the procurement called under the shopping method, and by now, actions are being taken to obtain a performance security on each

Action should be taken against officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.

procurement exceeding Rs. 05 million. Further, no contract agreements have been entered into regarding this procurement.

- (f) In the purchase of Island Freezer set & bottle cooler for Rs. 1,480,000, the bid documents including specifications had not been approved by the Technical Evaluation Committee as per paragraph 2.3.2 (c) of the Procurement Guidelines and information on bid security and performance security had not been mentioned in the bid evaluation documents as per paragraphs 5.3.11 and 5.4.8. Furthermore, a formal contract agreement had not been entered into with the contractor as per 8.9.1.
- Since the procurement should be carried out within a minimum period of time with the approval of the Chief Executive Officers with a specification confirmed by an officer with technical knowledge of the division which the procurement request was made. While only procurements invited under the National Competitive Bidding are submitted to the Technical Evaluation Committee. Every procurement will be forwarded to the Technical Evaluation Committee in future. Bid security and performance security have not been obtained for the procurement called under the shopping method and actions are being taken to obtain a performance security for each procurement exceeding Rs. 05 million. Further no contract agreements have been entered into in relation to this procurement.
- Action should be taken against officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.
- (g) In the procurement related to the purchase of equipment for Rs. 5,058,500, the procurement methodology was not determined in accordance with 2.11.1 (c) of the Procurement Guidelines and the bid documents including specifications were not approved by the Technical Evaluation Committee in accordance with 2.3.2 (c). Bid security and performance security had not been mentioned in the bid evaluation documents as per paragraphs 5.3.11 and 5.4.8.
- No bid security or performance security has been obtained for procurements for which prices were invited under the shopping method. But steps are being taken by now to obtain performance security for procurement exceeding Rs. 05 million.
- Action should be taken against officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.
- (h) The procurement for the Supply and installation of air condition machines for 08 Lanka Sathosa outlets had been awarded to Sathosa Construction and Engineering
- Currently, there are no officers in the Sathosa Construction and Engineering Private Company to inquire about this. Therefore the
- Documents related to the Procurement should be maintained properly

Private Limited company in the year 2019. Although the said company had submitted 08 invoices worth Rs. 9,017,581 on 14 August 2023, no any documents related to the procurement has included in the file maintained by the engineering Section of the company regarding the procurement. Further even though stock receipts had been issued confirming that the air condition machine had been received in good condition and had been entered in the stock books by the sales managers of the 8 Sathosa outlets according to those invoices, they had not been accounted until for the audited date 10 June 2024.

answers will be provided by referring in this regard after appointing a group of new officers.

and purchased assets should be accounted properly.

Action should be taken against officials who have not carried out procurement activities in accordance with the provisions of the Procurement Guidelines.

4.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) The Department of Management Services had approved a staff of 3,836 for the outlets of the company. There were 726 vacancies remained in relation to the 4 posts of Outlet Manager, Assistant Outlet Manager, Senior Sales Assistant and Stores Assistant as at the date 31 December 2023.	Covid pandemic in the year 2020 has led to the increase of leaving the service and the temporary suspension of recruitment.	Action should be taken to recruit employees for vacant positions.
(b) 573 employees has been recruited for its sales outlets on a daily wage payment basis by the company at the end of the year 2023. The arrival and departure of these employees had not been recorded by a fingerprint machine and Rs. 349,041,862 of salaries had been paid in the year 2023 based on a signed document.	Employees have been recruited on service requirement due to the opening of around 20 new outlets in 2021 and opening more than 10 new outlets every year. The cost incurred in 2023 will have been decreased relatively to the cost incurred for employees employed on a daily payment basis in the year 2022. Since employees recruited on daily wage basis are not continuously engaged in service, it is difficult to confirm their arrival and departure by using fingerprint machines, therefore arrival and departure are confirmed by a signature document.	Arrangements should be made to record the arrivals and departure using fingerprint machines for all employees.
(c) Two officers had been recruited on a contract basis for the posts of Head of Marketing and Online Sales and Confidential Secretary	Since there were vacancies in these two positions, they were recruited on a contract basis, subject to the prior	Recruitment should only be made with the approval of the

without the approval of the Department of Management Services, and a total of Rs. 7,188,333 had been paid to those two officers as salaries and allowances from the date of recruitment to 31 December 2023.

approval of the Board of Directors. Both of these positions are recruitments made in response to vacancies arising from service requirements and the positions are scheduled to be abolished upon the expiration of the contract period as decided by the Board of Directors.

Department of Management Services.

(d) Even though 852 vacancies for 20 posts approved by the Department of Management Services have been remained as at 31 December 2023, there was a surplus of 281 employees in the Sales Assistant posts. These surplus employees had been recruited without approval of the Department of Management Services.

1149 carder to the post of Sales Assistant for 400 outlets have been approved by the Department of Management Services in the year 2017. But 1746 employees have worked under this post as at 31.12.2017. Further, nearly 160 people have been promoted from the post of Store Assistant to the post of Sales Assistant during the period of 2018/2019. The Department of Management Services has approved to do recruitments for the Primary Service grade of the outlets from the April of year 2023. 223 employees have been promoted to the post of Senior Sales Assistant to reduce the surplus of Sales/Trade Assistant Category from 01 July 2024.

Approval should be obtained for the surplus employees from the Department of Management Services

(e) Although the efficiency bar examinations should be held within a stated specific period for each post as per the scheme of recruitment approved by the Department of Management Services dated 05 February 2021, efficiency examinations had not been held as at the audited date of 13 June 2024, and the completion of the efficiency bar had not been concerned when confirming and promoting employees.

An Efficiency Bar Examination System has not been established within the institute as it is not mandatory to conduct efficiency bar examinations as stated in the scheme of recruitment up to date.

Actions should be made to conduct the efficiency bar examinations as per the scheme of recruitment.