

## **1. Financial Statements**

### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Lanka Sathosa Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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.

I do not express an opinion on the financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **1.2 Basis for Disclaimer of Opinion**

I do not express an opinion based on the matters described in the 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 disclaimer of 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 Auditors 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:

- 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 Observation on the Preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standards**

<b>Non-Compliance with Reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to paragraph 32 and 33 of Sri Lanka Accounting Standard 01, assets and liabilities should not be set off. Instead of identifying the credit balances of Rs.14,115,752 relating to accounts receivable and making the necessary adjustments to the accounts, they had been offset against the accounts receivable balances.	Further reconciliations are being made on this matter and appropriate accounting treatments will be taken in the future.	Assets and liabilities should be shown separately in the financial statements in accordance with Sri Lanka Accounting Standards.
(b) Intangible assets should be disclosed separately in the financial statements as per paragraph 54 of Sri Lanka Accounting Standards 01. However, intangible assets amounting to Rs.258,110,179 were disclosed under property, plant and equipment.	The computer software class includes only computer hardware and is properly depreciated in accordance with the depreciation policy of the company.	Action should be taken to disclose intangible assets separately in accordance with the Sri Lanka Accounting Standards.
(c) In accordance with paragraph 34 of Sri Lanka Accounting Standards 02, all inventory	In accordance with paragraph 34 of Sri Lanka Accounting Standards 02, the cost of	Action should be taken to account stock losses and write-offs as

losses and write-offs should be recognized as an expense in the period in which they occur. However, the Company had added to the cost of sales Rs.43,200,155 and Rs.106,859,878 respectively as inventory losses and inventory shortages, resulting in an overstatement of cost of sales by Rs.150,060,033.

inventory sold is recognized in the period in which revenue is recognized. Similarly, inventory losses and write-offs are also recognized as an expense in the relevant period.

expenses in accordance with Sri Lanka Accounting Standards.

- (d) In accordance with the paragraph 42 of Sri Lanka Accounting Standards 08, errors relating to prior periods should be corrected retrospectively in the financial statements and comparative amounts should be restated. However, comparative amounts had not been restated in respect of prior year adjustments amounting to Rs.165,242,866.
- Answers had not been given.
- Comparative figures should be restated when correcting prior year errors in accordance with the Sri Lanka Accounting Standards.
- (e) In accordance with paragraph 51 of Sri Lanka Accounting Standards 16, the residual value and useful life of an asset should be reviewed at the end of each financial year, and, if any, changes should be accounted for as changes in accounting estimates in accordance with Sri Lanka Accounting Standards 08. However, the standard had not been followed in respect of 06 categories of property, plant, and equipment, which were fully depreciated at the end of the year under review but still in use at a cost of Rs. 690,055,293. Also, 2344 asset items relating to 06 categories of property, plant, and equipment were stated in the
- Arrangements are being made to conduct a revaluation of assets in 2025. Action will be taken to resolve this issue by that.
- Assets that have been fully depreciated but are still in use should be stated at their carrying value in accordance with Sri Lanka Accounting Standards. The correct value of all assets should be disclosed in the financial statements.

fixed asset register and financial statements as Rs. 2,344 during the year under review. Therefore, the correct value of the assets as at 31 December 2023 had not been disclosed.

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| (f) | <p>The Company had acquired 379 buildings on leasehold basis from external parties to operate its stores/warehouses etc. The relevant agreements were recognized as rental agreements instead of being recognized as leasehold agreements in accordance with paragraph 9 of Sri Lanka Financial Reporting Standards 16. Furthermore, instead of recognizing the lease of the buildings such as stores/warehouses as a right-of-use asset and a lease liability in accordance with paragraph 22 of the standard, the amount of Rs.819,327,408 paid in the year under review was adjusted to the profit for the period as a rental expense.</p> | <p>According to the standards, leases can only be accounted if the asset is under control. However, Lanka Sathosa does not have the right to control or make decisions regarding the management of this premises. Accordingly, this has been correctly accounted as rents.</p> | <p>Adjustments to the financial statements should be made in accordance with Financial Reporting Standards 16 in respect of buildings acquired on a leasehold basis from external parties.</p> |
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## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Rs.96,913,945 spent by the company for the improvement of the building where the Welisara outlet is located, which was rented from the Cooperative Wholesale Establishment, was shown under property, plant and equipment instead of being shown as a receivable or expense.	This institution was liquidated in September 2023 and its assets were given to Lanka Sathosa for use, and its ownership will be transferred to Lanka Sathosa in the future.	Expenses should be accurately identified and accounted.

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| (b) | In calculating the cost of sales, the credit balance of Rs.9,145,626 in the stock in transit account as at 31 December of the year under review was reduced, the total of Rs.35,704,903 in the accounts Default Batch Transfer and Default Batch Clearance was not considered as stock shortages but was adjusted to the cost of sales, the balance of Rs.18,585,459 in the stock adjustment account was reduced from the cost of sales, the total of Rs.39,500,596 that should not have been adjusted to the cost of sales was reduced from the cost of sales and the amount of Rs.912,102 returned to suppliers from the stock purchased in previous years was reduced from the cost of sales instead of being credited to the stock account, which resulted in an understatement of the cost of sales by Rs. 103,848,686. | This issue will be identified and resolved in the 2024 annual accounts.   | Action should be taken to calculate the cost of sales accurately.  |
| (c) | Action had not been taken to identify and account the unidentified direct deposits of Rs.1,168,620 that were in the unsettled deposit account as at 31 December of the year under review.  | It was not possible to obtain evidence to identify these direct deposits during the year under review.  | The parties who remitted the money should be identified and accounted correctly.   |
| (d) | When comparing the balances confirmed by trade creditors and the balances in the ledger as at 31 December of the year under review, it was observed that the balances confirmed by creditors were Rs.249,206,844 higher than the balances in the ledger, and that the balances confirmed by creditors were Rs.111,882,873 lower than the balances in the ledger.   | The reasons for this difference can be attributed to the existence of unrealized cheques as at 31.12.2023, the non-receipt of goods sent at the end of the year, and the existence of returned goods. | Action should be taken to reconcile the ledger balances of creditors and balance confirmations and make the necessary corrections. |

- (e) During the examination of a sample of 10 lease agreements relating to equipment, nameplates, furniture and fixtures worth Rs.335,120,765 acquired by the Company under the financial leasing method, the lease payable value taken into the financial statements was Rs.80,446,553 and the lease payable value stated in the agreements was Rs.116,678,625. Therefore, there was a difference of Rs.36,232,072.
- Payment below the value stated in the contract is made as per a decision made by the Board of Directors. The relevant suppliers have been informed of the lower value.
- Action should be taken to reconcile and correctly account of lease assets and lease liabilities.

### 1.5.3 Unreconciled Control Accounts or Records

	<b>Subject</b>	<b>Amount as per Financial Statements</b>	<b>Amount as per Corresponding Records</b>	<b>Difference</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
		<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>		
(a)	Cost of Property, plant and equipment	3,976,321,552	3,576,124,612	400,196,940	This issue will be resolved through the upcoming fixed asset revaluation.	Account balances should be reconciled with corresponding records and adjustments should be made to the financial statements.
(b)	Annual depreciation	474,675,403	357,033,733	117,641,670	This issue will be resolved through the upcoming fixed asset revaluation.	-Do-
(c)	Cost of intangible assets	306,875,996	240,006,000	66,869,996	Intangible assets were included in the fixed assets register from 2021 onwards, and until then	-Do-

					they were entered under software and transferred to the intangible assets account through a journal entry.	
(d)	Amortization of intangible assets	63,274,249	59,221,016	4,053,233	This issue will be resolved through the upcoming fixed asset revaluation.	-Do-
(e)	Trading stock	8,037,622,194	7,479,538,061	558,084,133	The stock valuation carried out in January 2024 for the 2023 accounting year has been carried out on each day and the correct stock should be transferred through the computer system through the stock roll back process on 31.12.2023, but such facilities are not provided in the current computer system.	The trading stock should be physically checked at the end of the year and the necessary adjustments should be made in the financial statements.

#### 1.5.4 Unauthorized Transactions

<b>Description of unauthorized transaction</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Without the approval of the Treasury, during the year under review, Rs.2,500,000 had been paid as interim allowances to 10 officers, and Rs.75,000 per month, totaling Rs.3,292,500, as performance allowances had been paid to the Chief Executive Officer and 05 Deputy General Managers.	The money paid as interim allowances to 10 officers of the Information Technology Division and as performance allowances to the Chief Executive Officer and 05 Deputy General Managers had been paid subject to the approval of the Board of Directors.	Interim allowances and performance allowances should be paid after obtaining Treasury approval. If any payment is made without approval, action should be taken to recover it.

#### 1.5.5 Going Concern of the Company

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The Company had continuously reported operating deficits ranging from Rs.35,424,509 to Rs.3,158,544,037 in the last 5 years and the deficit for the year under review was Rs.695,233,136. Also, the total assets of the Company as at the end of the year under review were Rs.11,663,026,809 and the total liabilities were Rs.22,746,261,338. Accordingly, it was observed during the audit that the existence of liabilities exceeding the assets by Rs.11,083,234,529 at the end of the year under review could adversely affect the going concern of the Company.	The negative equity value analysis includes the loss of Rs.6.8 billion (as per reports) incurred due to rice importation in 2014/15 on the decision of the government, which has further exacerbated this loss. Accordingly, an Extraordinary General Meeting (EGM) has been convened on the proposal of the Treasury representatives representing the Board of Directors to resolve the issue of the going concern of the institution. Its primary objective is to obtain equity infusion for the going concern of the institution.	Management should focus on the going concern of the Company and use appropriate strategies to achieve operational growth.

### 1.5.6 Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Audit evidence such as detailed supporting documents for 08 accounting subjects worth Rs.579,723,727, stock verification reports for stocks worth Rs.83,392,226, balance confirmation letters worth Rs.1,503,112,724 and age analysis worth Rs. 17,622,322 were not submitted for audit.	Detailed supporting documents or written evidence cannot be obtained for long-standing balances. Schedules and board approvals regarding withholding tax, rental deposits, and impairment provisions for trade debtors have been provided in the presentation of accounts. Schedules regarding cash in hand in outlets and the Credit Card Control Account will be provided from the year 2024. The relevant party does not record the sale of gift vouchers, and only the codes of the vouchers are scheduled. The consumables stock has not been verified as at 31.12.2023 and replies had not been given to the letters confirming the debtor balance.	Action should be taken to submit relevant schedules to audit for verify balances.

## 1.6 Accounts Receivable and Accounts Payable

### 1.6.1 Accounts Payable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Action had not been taken to settle the rent payable for 07 outlets and warehouses from the year 2015, amounting to Rs.7,544,233, up to 31 December of the year under review.	Action will be taken to pay the rent payable for seven warehouses since 2015, which amounts to Rs. 7,544,233.	Action should be taken to settle the contracted expenses without delay.

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

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(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 daily wage employees working in the Company's outlets had not been registered and paid contributions to the Employees' Provident Fund and Employees' Trust Fund as at 31 December of the year under review.	Daily wage workers are systematically selected through a tender process to overcome this problem.	Action should be taken to register and pay contributions to the Employees' Provident Fund and Employees' Trust Fund for daily wages employees.
(b)	Section 133 of the Companies Act No. 07 of 2007	The Annual General Meetings for the years 2021 and 2022 had not been held until 31 July 2025.	Action will be taken to hold Annual General Meetings in the future.	Action should be taken to hold Annual General Meetings in accordance with the Companies Act.
(c)	Section 5(I) of the Payment of Gratuities Act, No. 12 of 1983	The gratuity allowances amounting to Rs.51,052,620 payable to 243 employees who were entitled to gratuities and who left service during the period from 2019 to 2023 had not been paid as at 31 July 2025.	As per the direction of the Department of Labor, the first Rs.4.1 million were released to 21 employees on 13.08.2025, with an agreement to pay the relevant gratuity and surcharge in instalments in the order in which they left the service.	Action should be taken to avoid paying fines by making gratuity payments on the due dates.
(d)	Public Enterprise Circular No. PED 08/2022 dated 21 November 2022	If funds are obtained from the Treasury for capital and recurrent expenditure, the employees should not be paid on accrued leave allowances. However,	Payments for accrued leave for the year 2023 had been made subject to the decision of the Board of Directors.	Action should be taken to recover payments made in violation of the provisions of the Public Enterprise Circular.

contrary to this, the Company had paid Rs.14,119,773 as accrued leave allowances to employees during the year under review.

- (e) Paragraph 4.3 of the Guidelines for Corporate Governance of Public Enterprises issued by Public Enterprise Circular No. 1/2021 dated 16 November 2021
- Risk committee meetings had not been held since 04 April 2023.
- A risk-based approach is being adopted with the functions of the Internal Audit Division and further strengthening process is being conducted.
- Action should be taken to hold risk committees in accordance with the circular provisions and to achieve the desired objectives.
- (f) Operational Manual for Public Enterprises published by Public Enterprise Circular No. 1/2021 dated 16 November 2021.
- (i) Paragraph 3.2 (V)
- The approval of the Director General of the Department of Public Enterprises had not been obtained for the incentive scheme implemented by the company. Accordingly, Rs.28,096,000 had been paid to the staff as incentive allowances without approval.
- Answers had not been given.
- Payments should be made after obtaining approval from the Department of Management Services for the incentive scheme.
- (ii) Paragraph 3.5
- An officer of the Company had been temporarily attached to the line Ministry from 23 May 2022 without the
- The letter dated 2022.05.23 from the Additional Secretary (Administration)
- Action should be taken in accordance with the provisions of the circular and the salaries and wages paid should

approval of the Cabinet of Ministers, and from that date to 31 March 2024, the audit date, Rs.2,536,254 had been paid as salaries and allowances, and that amount had not been recovered from the ministry.

of the Ministry of Trade, Commerce and Food Security has informed that the said officer has been assigned to coordinate with the Ministry, regarding essential and emergency affairs of Lanka Sathosa.

be recovered.

(iii) Paragraph 6.6 The financial statements prepared for the year under review were submitted for audit on 09 April 2025 after a delay of 2 years and 40 days, and the draft annual report had not been submitted with the financial statements.

Action will be taken to submit the accounts for the year 2025 within the stipulated time frame.

Action should be taken to submit the accounts to the audit on the due date.

(g) Public Enterprise Circular No. 02/2022 dated 18 January 2022

An amount of Rs.786,645 had been paid as telephone allowances to 77 officers of the Company who were not entitled to monthly telephone allowances.

Action has been taken in accordance with Public Enterprise Circular No. 02/2022 dated 18 January 2022 and telephone allowances have been paid to other executive grade officers subject to the approval of the Board of Directors in accordance with the salary category of the officers under No. 02 thereof.

Telephone allowances should be paid only to those officers who are entitled to them in accordance with the provisions of the circular, and action should be taken to recover telephone allowances paid in violation of the provisions of the circular.

(h) Paragraphs 6.1, 6.2 and 6.4 of Public Finance Circular No. 01/2020 dated 28 August 2020 According to the circular, a service such as a consultant should be obtained as an emergency service on a short-term basis not exceeding 90 days and a maximum allowance of Rs.150,000 should be paid upon completion of the relevant work with the personal approval of the Secretary to the Ministry, however, contrary to this

(i) An advisor was appointed without Treasury approval and contrary to the circular provisions, and an amount of Rs.3,496,789 was paid from June 2022 to May 2024, in order to obtain licenses for the Company's liquor outlets.

According to the decision of the Cabinet held on 20.04.2021, the work of obtaining 100 liquor licenses was already underway with the approval of the Cabinet, but since the organization did not have a suitable person with knowledge in this regard with the primary objective of carrying out the work more efficiently and at minimal cost, on the instructions of the Ministry, action were taken to appoint the former General Manager of Sathosa, who had knowledge in this regard, in an advisory position with the approval Treasury approval should be obtained when recruiting for consultant positions in accordance with the provisions of the circular and payments should be made accordingly.

of the former  
Chairman and  
former CEO.

(ii) The service period of the legal officer, who had been recruited on a contract basis for a period of 6 months from 01 September 2022, had been extended from 22 March 2022 to 30 August 2023 and again from 01 September 2023 to 29 February 2024 for a period of 1 year and 06 months. The officer had been paid Rs.2,092,500 as consultancy fees, contrary to the circular.

This officer has been recruited on a contract basis based on the needs of the institution due to a position not being available in the approved carder and payments have been made with the approval of the Board of Directors.

Treasury approval should be obtained when recruiting for special posts on a contract basis in accordance with the provisions of the circular.

(i) Letter No. DMS/1741 dated 16 May 2017 of the Director General of the Department of Management Services

The approved monthly allowance for the Chief Executive Officer and Deputy General Managers of the Company was Rs.95,000 and Rs.90,000 respectively. However, with the approval of the Board of Directors, a monthly allowance of Rs.250,000 was paid to the Chief Executive Officer and Rs.150,000 each to 5 Deputy General Managers. Accordingly, the amount paid in excess to the Chief Executive Officer and Deputy General Managers in the

Payments are made as per approval of the Board of Directors.

Prior approval from the Treasury should be obtained when making payments exceeding the amount approved by the Department of Management Services. Action should be taken to recover payments made without approval.

year 2023 was  
 Rs.1,860,000 and  
 Rs.2,094,400  
 respectively.

- (j) Public Enterprises Circular No. PED 01/2015 dated 25 May 2015
- 19 officers holding MM 1-1 posts who were not entitled to use official vehicles for official and personal use or to receive transport allowance were paid Rs.2,807,083 as transport allowance during the year 2023.
- The relevant Treasury approval payments have been made only with the approval of the Board of Directors. It has been referred to the Department of Management Services, but its approval has not been received yet.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs.695,233,136 and the corresponding deficit of the previous year was Rs.35,424,509. Therefore, a deterioration amounting to Rs.659,808,627 of the financial result was observed. Although there is an increase in other income by Rs.192,517,648 and a decrease in selling and distribution expenses by Rs.539,402,823, the provision for bad debts, stock losses, stock returns and creditors' debit balances totalling Rs.849,869,028, and the increase in administrative expenses by Rs. 213,057,712, were the main reasons for the deterioration.

## 3. Operational Review

### 3.1 Management inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	The contract for the Enterprise Resource Planning System, which was implemented from 2017 to 2021, was terminated without a completion report, after paying Rs.83,000,000 to the contractor, and an amount of	A case has been filed in the Arbitration Centre to recover Rs.112,941,954 in relation to this case. The case is currently under investigation and the current Chairman of the Arbitration Centre has resigned,	A system that suits the Company should be selected and installed after a thorough planning and feasibility study. Action should be

Rs.7,656,904 had been spent as legal fees by the end of the year under review for the case filed by the relevant contractor against the Company for the termination of the contract without notice. In 2021, a private company was selected to expand the Company's integrated Enterprise Resource Planning (ERP) system and an expenditure of Rs.201 million was incurred. Feasibility study had not been conducted in relation to this procurement work and the final system audit and user acceptance test by the Information Technology Agency of Sri Lanka (ICTA) had not been conducted by the audit date of 31 August 2025 when payments were made to the contractor as per the agreement.

and the case is scheduled to be taken up as soon as a new Chairman is appointed.

taken to recover the losses incurred from the responsible parties.

- (b) The Company had constructed a building on a land in the Kilinochchi area belonging to the Karachi Pradeshiya Sabha at a cost of Rs.230,269,715 and the said Pradeshiya Sabha had handed it over to the Ministry of Trade on 19 November 2014. Although the construction was carried out as above, the Company had not taken actions to acquire the ownership of the relevant land.
- The amount paid for the construction of these buildings has been capitalized because the future benefits from this expenditure will flow to the institution and the legal ownership will be transferred to Lanka Sathosa. All relevant actions have been taken to transfer the ownership to Lanka Sathosa.
- Action should be taken to transfer ownership of the land to the Company without delay.
- (c) In violation of the import control restrictions imposed by the Government of Sri Lanka, 2,269.5 metric tons of sugar imported by two local suppliers on 21 June 2021, which was unsuitable for consumption, were purchased by the Company on 18 December 2022 at a cost of Rs.389.8 million, without following the procurement procedure, and sold to local confectionery manufacturers.
- According to Cabinet Paper No. 22/1753/627/021 dated 01.11.2022, approval has been given to purchase the sugar stock from suppliers and the Board of Directors has given approval to resell the sugar stock to 5 confectionery companies.
- Harmful products that are unsuitable for consumption should not be purchased or sold.

### 3.2 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As per guideline 4.2.1 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, a master procurement plan including the expected procurement activities for a period of at least three years and a procurement plan for the year under review regarding the procurement of the trading stock of the Company had not been prepared.	This has been prepared for the year 2025.	Procurement activities should be carried out by following Procurement Guidelines.
(b) In purchasing 315 mobile phones at a cost of Rs.5,112,850 for a sales promotion program and to give gifts to the employees of the institution, and 15 laptops at a cost of Rs.2,354,000, guidelines 4.3.1(a), 2.3.2(c), 5.3.11, 5.4.8, and 8.9.1 of the Government Procurement Guidelines had been violated.	An estimate has been provided with the request for procurement, and the request for this procurement is made with the specifications confirmed by an officer with technical knowledge of the required sector and with the approval of the Chief Executive Officer. A contract agreement has not been entered into for this procurement, and bid security or performance security has not been obtained.	Procurement activities should be carried out by following Procurement Guidelines.

### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) As at 31 December 2023, there were 852 vacancies for 20 posts approved by the Department of Management Services and there was a surplus of 281 employees in the Sales Assistant position and these surplus employees had been recruited without the approval of the Department of Management Services. A staff of 3,836 had been approved for the stores of the	Out of 07 applicants selected for the post of Shop Manager, only 02 have reported for duty. Due to the lack of graduation qualifications for the store managers, they are appointed to the acting post of Assistant Shop Manager based on	A review of the entire cadre should be conducted and a cadre structure that suits the needs of the Company should be established and approved.

Company and as at December 2023, there were 726 vacancies for the 4 posts of Store Manager, Assistant Store Manager, Senior Sales Assistant and Store Assistant. work experience and performance and an acting allowance is paid from 01.01.2023.

- (b) At the end of the year under review, the Company had employed 573 employees on a daily wage basis for its outlets. Their attendance and departure were not recorded by a fingerprint machine and Rs.349,041,862 was paid as daily wages based on a signature sheet. No casual workers have been recruited under the daily payment system and workers have been employed on a daily payment basis based on the daily service requirement. As some workers are not continuously employed, fingerprint machine has not been facilitated for them. Relevant attendance register is certified by the outlet manager as corrected and forwarded through zone manager for the payment. A systematic Procedure should be developed to record the arrival and departure of employees recruited on a daily wage basis.
- (c) Two officers were recruited on a contract basis without the approval of the Department of Management Services for the two senior-level positions of Head of Marketing & Online Trading and Confidential Secretary, and a total of Rs. 7,188,333 was paid as their salaries and allowances. Based on a management decision, the applicant, who had received Cabinet approval to be recruited for the position of Deputy General Manager (Marketing), was recruited under a new position appropriate to the duties expected to be assigned to him, with the approval of the Board of Directors. Only employees approved by the Department of Management Services should be recruited. If there are any other requirements, the approval of the Department of Management Services should be obtained.