

## **Sri Lanka Handicraft Board - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Handicraft Board (“Board”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of compressive 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 Board as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified 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 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 Board’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 Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 Board.

#### **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 skepticism 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.
- Obtained 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 Board's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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 Board'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 Board to cease to continue as a going concern.
- Evaluated 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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 the reference to particular standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to Sections 12, 46, 58, and 77 of Sri Lanka Accounting Standard 12, income tax had not been calculated and accounted for in the year under review.	That the correction will be made during the preparation of financial statements for the year 2024.	Income tax should be calculated and accounted for in compliance with the Sri Lanka Accounting Standards.
(b) Two cases filed against the board by two employees had not been disclosed as per Section 84 of Sri Lanka Accounting Standard 37.	That the disclosure will be made during the preparation of financial statements for the year 2024.	Actions should be taken to disclose information regarding contingent liabilities in accordance with the Sri Lanka Accounting Standards.
(c) According to the financial statements, the trade debtors balance as of 31 December 2023, was Rs.16,229,979, out of which Rs.11,864,738, representing debtors outstanding between 3 years to 12 years, had not been provision for bad debtors in accordance with Sections 5.4.4 and 5.5 of Sri Lanka Financial Reporting Standard 9.	The failure to properly include old balances within the system and the inability to reconcile the balances, despite the relevant invoices being settled, had been stated. However, actions had been taken to write off these balances with the approval of the Board of Directors in the year 2024.	Actions should be taken to provision for bad debtors in accordance with the Sri Lanka Accounting Standards.

## 1.5.2. Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) The amount of Rs.158,399,824 of the loan amounted to Rs.200 million obtained from the Regional Development Bank in 2013, and the accumulated unpaid interest on the loan amounted to Rs. 12,609,762, which was due for payment as of 31 December 2023. However, the interest on this amounting to Rs.18,534,346 for the year under review had not been accounted for. As a result, the profit had been overstated, and the current liabilities had been understated.	Regional Development Bank, agreed to a subsidized interest cut for several years and the removal of variable interest rates in negotiations conducted with the intervention of the Ministry. Accordingly, the interest related to the year 2023 was removed from the 2023 accounts as it is not certain about the accounting or repayment.	As there wasn't written agreement to cut the interest, the payable interest should be properly accounted for.
(b) The inventory shortage of Rs.6,804,182 identified during the physical stock verification for the year under review was neither accounted for nor corrective actions taken to recover the loss. As a result, the inventory balance and the profit for the year were overstated.	That Board paper will be presented in the year 2024 and actions will be taken to carry out the relevant accounting activities in the year 2024.	Actions should be taken to account for the stock shortage and recover the loss.
(c) Due to the failure to properly verify the physical inventory and the unresolved discrepancies in the inventory accounting system, the existence of inventory amounting to Rs.196,543,310 included in the financial statements could not be confirmed.	That the actions had been taken to reconcile the physical stock and account for it under prior year adjustments through the accounts of the 2024.	Stocks should be physically verified and accounted for properly.
(d) At the end of the year under review, the carrying value of plant and machinery, as well as furniture, fittings, and office equipment, had been over depreciated by Rs.2,206,496 and Rs. 4,362,015, respectively. As a result, the value of property, plant and equipment, as well as the profit, had been understated by Rs. 6,568,511.	That the corrections will be made through the accounts of the year 2024.	Correct values of property, plant and equipment should be accounted for.

- (e) Due to the non-implementation of three agreed lease agreements, the contractual value totaled Rs.1,505,000 accounted for, had been overstated in the receivable balance. That the instructions will be obtained from the Board of Directors regarding the value of Rs.1,505,000 not contracted. Actions should be taken to accurately present the receivable balances in the financial statements.

### 1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements Rs.	Values as per corresponding records Rs.	Difference Rs.	Management Comment	Recommendation
Property, Plant and Equipment	220,031,513	64,369,755	155,661,758	That these corrections will be made during the year 2024.	Actions should be made regarding the adjustments related to property, plant and equipment and should be carried out the required corrections.

## 1.6 Accounts Receivables and Payables

### 1.6.1 Account Receivables

	Audit Observation	Management Comment	Recommendation
(a)	Although the deposit of Rs. 3,701,025 was paid to the Urban Development Authority in 2012 for the Racecourse showroom is non-refundable, it has been recorded as a receivable in the accounts.	That deposit will be shown as non-refundable in the accounts in the year 2024.	Actions should be taken to present financial statements accurately.
(b)	An amount of Rs. 107,548,197 was due from the Department of Museum which was incurred by the board for the construction activities of the Laksala showroom located at the Museum premises which was removed in November 2023. However, that amount had not been recovered up to date.	According to a Cabinet decision, the Laksala souvenir sales outlet that had been operating in a building within the premises of the Department of National Museum was removed. During this process, it was required to adjust outstanding taxes, rents, and electricity charges to the department with the invested funds in the development of the building by the Laksala	Action should be taken to recover the expenses incurred immediately.

institute. Based on the board's calculations, an amount of Rs.107,548,197 was receivable to Laksala. However, since the amount informed by the department could not accept the relevant information will be presented at the next Board of Directors' meeting for a decision.

- (c) The land and building, comprising 1 acre 30.6 perches, which belonged to the Gall Unawatuna Salusala institution, was transferred to the Board through a Cabinet decision dated 11 October 2012 and numbered 12/1523/553/020 and the board, had been paid Rs.15,248,575 in 2012 as purchase price. However, the Lanka Salusala institution transferred this land to the Industrial Development Board on 22 September 2023 for Rs.25,000,000. At there, the value paid by the board as the purchase value had not been recovered from the Salusala institution even on 25 September 2024.
- Lanka Salusala institution has informed the Board that there is an ongoing legal matter regarding the property in question, and the proper transfer of the property has not been carried out. It has been stated that the transfer will be completed through a legal deed immediately after the conclusion of the legal proceedings. Furthermore, it has been instructed that the amount of Rs.15,248,575 paid to Lanka Salusala should be directly provided to the Sri Lanka Handicraft Board.
- Action should be taken to recover the money that paid by the board immediately.

## 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>Management Comment</b>	<b>Recommendation</b>
(a)	Sections 21 and 23 of Chapter XLVIII of volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka:	As decided in the board meeting held on 19 November 2015, two female officers were suspended. However, during the year under review, disciplinary orders had not been issued by the disciplinary	The Board of Directors had not yet made a decision regarding the final disciplinary inquiry report. One person had been charged by the Commission to Investigate Allegations of Bribery or	Action should be taken to issue a disciplinary order in accordance with Sections 21 and 23 of Chapter XLVIII of Part II of the Establishments Code.

		authority of the board.	Corruption, and a case had been filed at the Colombo High Court. Meanwhile, based on the decision of the case filed by the other officer at the Wattala Labour Tribunal, a sum of Rs. 6,294,099 had been paid to the complainant party with the approval of the Board of Directors.	
(b)	Financial Regulation 396(d) of the Democratic Socialist Republic of Sri Lanka	Financial regulations were not followed regarding 27 issued cheques worth Rs.444,346 that were six months past due.	Due to system errors and continuous system crashes in the year 2023, data updates could not be completed on time. Actions are being taken to ensure that such situations do not occur in the future.	Action should be taken to act in accordance with Regulation 396 on cheques overdue.
ii	Public Finance Circular No. 01/2020 dated 28 August 2020, and Financial Regulation 371(5)	The advance amounted Rs.572,490 obtained by six officers was settled with a delay ranging from 30 to 252 days, while the advance amount of Rs. 483,000 received six officers was settled in the following year.	Instructions had been given to recover unsettled advances from monthly salaries of the respective parties'. It is emphasized that advances should not be carried forward.	Action should be taken in accordance with Regulation 371(5) on the advances.
iii	Financial Regulation 502(2) and Management Audit Circular No. DMA/2009(2) dated 1 September 2009:	A fixed asset register had not been properly maintained, and information regarding purchases worth Rs.178,345,544 related to four categories of assets had not been updated correctly.	Actions will be taken to maintain a proper asset register in the future.	The Fixed asset register should be properly maintained in accordance with financial regulations.

- (c) Paragraph 6.6 of the Operational Manual for State Enterprises introduced by Public Enterprises Circular No. 01/2021 dated 16 November 2021
- The financial statements for the year 2023 were submitted to the Auditor General on 5 August 2023, after a delay of six months, and the draft annual report had not been submitted by the date of this report.
- Due to the complete inactivity of the SAP ERP software from December 2022 to March 2023, significant effort was required to re-enter the data. Actions have been taken to implement a new system within the board during the year 2024.
- Financial statements and the draft annual report should be submitted by the specified date in accordance with the circular's instructions.
- (d) Social Security Contribution Tax Act No. 25 of 2022:
- Action had not been taken to pay monthly tax payments based on self-assessment to the Inland Revenue Department. As a result, Rs. 6,590,693 had accumulated by the end of the year.
- It is expected that the tax payments will be updated by paying the outstanding amount on a monthly basis in the future.
- Payments should be made in accordance with the Social Security Contribution Tax Act.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.57,120,290, and the corresponding loss in the preceding year amounted to Rs.99,040,670. Accordingly, an improvement amounting to Rs.156,160,960 of the financial result was observed. Although there was an increase of Rs. 132,218,213 in the cost of sales, Rs. 35,726,177 in administrative expenses, and Rs. 38,359,101 in sales and distribution expenses, the increase in the board's income by Rs. 357,653,549 was the major reason for this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	In 2022, handicraft items and gem and jewelry products worth Rs.20,731,487 were sent to the Global Village Exhibition held in Dubai. Of this, gem and jewelry items worth Rs.7,200,424 were returned. However, these items had not been handed back to the board by the authorized agent. As of the audit date, 5 February 2024, Rs.2,706,213 of the exhibition sales value of Rs.13,531,064 had still not been received by the board.	Section 5:3:2 of the Authorized Dealership Agreement is based on daily sales at the Authorized Sales Showrooms, but it does not apply to temporary sales shows. For such events, the transactions were properly conducted through a written agreement.	Actions should be taken to recover the remaining stocks of gems and jewelry and the outstanding receivables immediately.



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| <p>(b) Taxes outstanding for several years, (income tax, economic service charge, nation-building tax and value-added tax) amounting to Rs.46,125,572, and withholding tax of Rs.1,494,183 related to the years 2018 and 2019 had not been remitted to the Department of Inland Revenue. Additionally, audit fees amounting to Rs.9,295,157, payable to the National Audit Office for audit services provided to the board from 2011 to 2022, had not been paid during the review year.</p> | <p>That the board has paid Rs.1,144,609 up to 2009 in accordance with an agreement reached with the Inland Revenue Department regarding the taxes payable.</p> | <p>Actions should be taken to promptly pay the taxes payable.</p>        |
| <p>(c) Although the land on which the Galle showroom is located and the two-story building were transferred to the board through Gazette Notification No. 670 dated 5 July 1991, action had not been taken to obtain legal ownership by the end of the year under review.</p>   | <p>Action will be taken to obtain legal ownership of the property.</p>   | <p>Action should be taken to obtain legal ownership of the property.</p> |

### 3.2 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The plant and machineries and buildings valued at Rs.4,921,120 belonging to the Keselwatta Project, which had been closed since 2009, have remained idle without being used for any operational purpose. Additionally, an amount of Rs.1,041,600 was being incurred for its security annually.</p>	<p>That the future, a suitable and effective project will be implemented in the Keselwatta premises.</p>	<p>Actions should be taken to obtain maximum benefits from the available resources.</p>
<p>(b) The premises of approximately 40,830 square feet of Fort showroom building had remained idle for a long period due to dilapidation. Action had not been taken to renovate and utilize the building.</p>	<p>That in the future, provisions is made occasionally and it is expected to generate additional income by making necessary development works of this building promptly.</p>	<p>Actions should be taken to obtain maximum benefits from the available resources.</p>