

## **Sri Lanka State Trading (General) Corporation Ltd – 2024/2025**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sri Lanka State Trading (General) Corporation Ltd. (“Company”) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

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 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 Audit Scope

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 Accounts Receivable and Payable**

### **1.5.1 Receivables**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As at 31 December of the year under review, the trade debtor balance of Rs.1,436,998,718 of which Rs.181,345,597 was over 5 years, including Rs.73,002,772, which was recoverable from Saumyamoorthy Thondaman Foundation, which was about 40 percent of the total outstanding balance over 5 years. Furthermore, the balance of Rs.14,125,955 included in other receivables was over 3 to 13 years. Necessary actions had not been taken to recover these balances.	Regarding debtors over 1 year, follow-up is being carried out by visiting the debtors, telephone calls and letters, taking action to recover in instalments after entering into an agreement, allocating 100% of bad debts for high-risk debtors, sending reminder letters to confirm the balances of the debtors, taking necessary action to take legal action, and taking actions to write off the unrecoverable debtors over 5 years as per 6.9 of the Operational Manual.	Trade debtor balances and other receivables should be promptly recovered.

### **1.5.2 Payables**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As at 31 December of the year under review, no age analysis had been prepared for the balances of Rs.372,005,293, and	A sum of Rs.10,045,847 is payable to the supplier for the cutting of cloth related to the distribution of school uniforms by the Ministry of	Action should be taken to settle the creditor balances promptly.

action had not been taken to settle those balances. There was also a long-term balance of Rs.16,171,233 within that balance.

Education, and Rs.7,784,037 is to be received for that from the Ministry of Education. This will be presented to the Board of Directors and action will be taken to remove it from the accounts in the future.

#### 1.6 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)	Public Enterprises Circular No. PED/1/2015 dated 25 May 2015 and the letter of the Director General of the Department of Public Enterprises No. PED/S/STC/03/11(i) dated 05 October 2023	Contrary to the provisions, 30 officers who were not entitled to assigned vehicles and two officers recruited on a contract basis were paid Rs.2,820,000 and Rs.60,000 respectively as transport allowances during the year under review.	Since the existing vehicle pool is not sufficient for meeting customers, market survey activities and tender activities, approval has been given by the Department of Public Enterprises to reimburse allowances and field allowances for meeting stakeholders from 2023.	Action should be taken to pay transport expenses in accordance with the provisions of the Circular and the reimbursement method approved by the Director General of Public Enterprises.
(b)	Public Enterprises Circular No. PED 08/2022 dated 21 December 2022	In the payment of allowances for employees based on unused leave, in calculating the leave entitled to the employees, the number of leave available in a year was considered as 42 instead of 21, contrary to the provisions of the Shop and Office	Since the establishment of the institution, employees have been entitled to 07 days of casual leave, 14 days of annual leave and 21 days of sick leave per year according to the internal circular. Payments have been made for the 20 days of leave saved as per the circular with the	The leave encashments should be paid based on the leave entitlement granted by the Shop and Office Employees Act, No. 19 of 1954. Action should be taken to

	Employees Act, No. 19 of 1954, and Rs.9,497,982 was paid as leave encashments in the year under review.	approval of the Board of Directors Further, provisions have been made for holiday pay under the administrative expenses of the budget document, and the approval of the Board of Directors has been obtained.	recover the excess payments.	
(c)	Paragraph 1.3 of Public Enterprises Circular No. PED 03/2024 dated 23 December 2024	Even though Public Enterprises that have earned profits in the 2023/2024 financial year but have not paid at least 30 percent of the profit after tax as dividends to the Consolidated Fund are not entitled to pay bonus to their staff based on profitability, the Company has only paid dividends of 16 percent of the profit earned in the year 2023/2024, and paid bonus of Rs.5,180,000 to 259 employees in the year under review for that period.	As per the No. 2. of the circular if state-owned companies have paid at least 30% of their profit after tax to the Consolidated Fund in the 2023/2024 financial year as dividends/ taxes, a sum of Rs. 20,000 can be paid as bonus. Therefore, a total of Rs.566,760,462 was paid in the year 2023/2024, consisting of Rs. 464,260,462 as taxes and Rs.102,500,000 as dividends. Accordingly, bonus have been paid based on the circular and the approval of the Board of Directors.	As per the circular, bonus should be paid to staff only when 30 percent of the dividends have been paid to the Consolidated Fund. If any illegal payments have been made, those should be recovered.
(d)	Paragraph 3.2(i) of the Operational Manual for State Enterprises promulgated by Public Enterprises Circular No. PED 01/2021 dated 16 November 2021	A sum of Rs.8,815,474 was paid to employees for reimbursement of medical expenses without approval of the Treasury.	Medical expense allowances of Rs.40,000 per employee per year were paid, subject to a maximum limit of Rs.25,000 for	Action should be taken to obtain the Treasury approval for all allowances.

residential treatment and Rs.15,000 for non-residential treatment. Approval of the Board of Directors was obtained to pay a maximum limit of Rs.40,000 per year for all treatments from February 2024.

(e) Paragraph 5.1 of public Enterprises Circular No. 01/2024 dated 28 February 2024	Even though the Company's funds should not be used for employee welfare societies and other welfare activities, a total of Rs.806,500 was spent on welfare activities on 8 occasions during the year under review.	Since the Corporation is a trading institution, advertising expenses have been incurred to increase sales turnover, and no money has been transferred for welfare activities. Provisions have been made for advertising and trade promotion activities in the budget document and the approval of the Board of Directors has been obtained and advertising activities have been carried out within those limits.	Action should be taken to suspend all types of welfare expenses as per the provisions of the Circular.
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**2. Financial review**

**2.1 Financial Results**

The operating result of the year under review amounted to a profit of Rs.369,998,877 and the corresponding profit in the preceding year amounted to Rs.1,501,214,947. Therefore, a deterioration amounting to Rs.1,131,216,070 of the financial result was observed. Although the cost of sales decreased by Rs.2,274,870,836, the decrease in sales revenue by Rs.3,344,949,618 and financial income by Rs.99,390,596 was the main reason for this deterioration.

**3. Operational review**  
**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Company had contributed 10 percent of the total monthly earnings of the employees to the Employees' Provident Fund, and the Company had contributed 15 percent. Approval of the Board of Directors for the payment of 3 percent in excess of the minimum contribution of 12 percent was not presented to the audit. Accordingly, the amount of unapproved Employees' Provident Fund contribution paid in excess of 12 percent during the year under review was Rs. 4,806,084, which is 3 percent.	The Board papers were examined from 1996 regarding the approval of the 15% contribution paid by the Company to the Employees' Provident Fund on behalf of the employees. However, no Board decision could be found. In examining the recruitment of employees made in the year 1984, the Company had paid the 15% contribution.	The approval of the Board of Directors should be obtained, and the Commissioner of Labour should be informed when paying Employees' Provident Fund contributions at rates higher than those under the Employees' Provident Fund Act.
(b) As per the internal audit report dated 19 May 2025, out of the stocks held in the stores of duty-free shops as on 22 March 2025, stocks worth Rs.1,089,556 were confirmed as damaged stocks and stocks worth Rs.13,884,042 were confirmed as unsaleable stocks. Formal investigations had not been conducted regarding the said stocks, and actions had not been taken to identify the causes of such damage and the responsible parties even by the last day of the year under review.	Necessary actions will be taken in the ensuing year following the audit observations and suggestions.	Action should be taken to identify the responsible parties and recover the losses by conducting formal investigations regarding damaged stocks and unsaleable stocks.
(c) The Company had not signed a lease agreement for the warehouse premises No. 07 of the Narahenpita Dedicated	Even though letters were sent to the Economic Center Management Trust to enter into an agreement	Formal lease agreements should be entered into in respect of the

Economic Center, which was rented by the Company, and during the year under review, the Company had renovated the said warehouse premises at a cost of Rs. 63 million.

for the warehouse located in Narahenpita, no response has been received so far.

buildings obtained on rent, and the reimbursement of expenses incurred in respect of those buildings should be included in the lease agreements.

- (d) Even though the cost of living allowance should not be applied in calculating overtime allowances and holiday pay, the Company had paid Rs.3,220,465 more due to the application of the cost of living allowance in calculating the holiday pay paid to 202 employees during the year under review.

The Employees Provident Fund Calculation Guidelines issued by the Department of Labour state that the total monthly earnings for calculating the Employees Provident Fund for employees include salary, and cost of living allowance. Accordingly, the cost of living allowance was applied to the salary in calculating holiday pay.

The cost of living allowance should not be applied in calculating overtime allowances and holiday pay, and action should be taken to recover the money paid in excess.

### 3.2 Operational Inefficiencies

#### Audit Observation

In the 2022/2023 financial year, the Thalangama Q SHOP showroom had incurred an expenditure of Rs.2,245,320. However, no income had been generated.

#### Comments of the Management

The Thalangama Q SHOP outlet is located at the Thalangama depot of the Sri Lanka Transport Board, and due to the management changes that occurred from time to time in the Board, it was not possible to commence Q SHOP operations at those premises due to ambiguities in the terms of the agreement.

#### Recommendation

Feasibility studies should be carried out before such capital expenditure is incurred. Action should be taken to generate income in these premises.

### 3.3 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the Department Procurement Committee should be nominated by the Secretary of the Line Ministry as per paragraph 2.7.5 of the Procurement Guidelines, the Department Procurement Committee of the Company had been appointed by the Chairman and a Senior Assistant Secretary of the Line Ministry or a Director of equivalent rank had not been appointed as a member of that Committee.	Since the procurement activities were properly carried out based on the limit of the value through the Cabinet Appointed Procurement Committee and the Technical Evaluation Committee, the necessary decisions for the internal documents of the institution have been taken by the Department Procurement Committee.	Appointing the Department Procurement Committee and its composition should be prepared in accordance with the provisions of the Procurement Guidelines.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Among the main objectives of the Company, the relevant measures to achieve the objective of entering the foreign export market were not included in the 2024/25 Action Plan. Further, the sales revenue of the 04 divisions had decreased from 7 percent to 89 percent compared to the previous year, and the Special Projects Unit had incurred a loss of 1 percent.	The efforts made to identify products and suppliers to enter the foreign import market were not successful due to the shortage of full-time staff and the existing staff being fully utilized for existing trade activities. The temporary suspension and delay of procurement and tender processes by Government institutions with the announcement of the elections, the issues regarding the renewal of the duty-free license for the year 2025, the competition in the market and the strict expenditure restrictions in government institutions have led to a decrease in revenue.	Planned actions should be taken to include the anticipated objectives in the plans and achieve them.
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