## Lanka Sathosa Ltd - 2017

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The audit of the financial statements of the Lanka Sathosa Ltd ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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. In carrying out this audit I was assisted by a firm of Chartered Accountants in public practice.

Since the financial statements for the year under review were not submitted as of 30 September 2018, a transaction report for the under review in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, were tabled in Parliament on 20 February 2019. However, as the financial statements for the year under review are presented on 10 June 2019, my observations on the financial statements for the year under review in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### 1.2 Board's Responsibility for the Financial Statements

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The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### 1.3 Auditor's Responsibility

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My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the basis for disclaimer of Opinion paragraph; however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### 1.4 Basis for Disclaimer of Opinion

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(a) The inventory valuation method followed by the management was not in consistent with the requirements of LKAS 2 "Inventories". The financial impact arising therewith on cost of sales and current assets in the financial statements could not be determined nor quantified and also a substantial quantity of stocks remaining in the warehouse, said to be stocks returned by the outlets representing stocks returnable to the suppliers and stocks already has expired. However, the company has not quantified nor valued these stocks and has not booked into the accounts at each year-end.

Further, goods in transit amounting to Rs. 14,729,648,431 had been transferred to the manual outlet control account at the end of the year under review. However, the audit verification did not provide a summary statement showing the amount of the transfer notes, quantities and the value of the stock items transferred to each manual outlet.

(b) The difference between the credit card control account balance and the bank confirmations at the end of the year under review was Rs. 5,034,310. However, sales outlets, including manual outlets, were not able to examine the change in the year-to-date ledger balance transactions.

(c) The total of outlet cash in hand at the end of year under review was Rs. 570,772,334. However, schedules had been presented only for Rs. 442,035,688 and the schedules were not submitted for the balance of Rs. 128,736,646.

(d) At the end of year under review, the company's accumulated loss was Rs. 11,823,696,122 and current liabilities exceeded the current assets by Rs. 11,290,858,189. Further, the company is running at a serious loss of capital situation as identified in Section 220 (1) of the company's Act, No. 07 of 2007. These factors raise doubt that, the company's capacity of meeting its liabilities by the assets of the company and whether the company will be able to continue as a going concern.

(e) There was no updated fixed assets register for property, plant and equipment amounting to Rs. 1,624,128,342. Further, it is included unidentified and un-reconciled assets values, some of which represent opening balances amounting to Rs. 335,204,308.

(f) The documentary evidence to substantiate the ownerships / leasehold rights of the lands occupied by the company was not available for audit verification.

(g) The clearing documentation in relating to the advances paid to the clearing agent on importation of rice purchased during the year 2014 amounting to Rs. 267,600,501 had not been made available for audit.

(h) No independent confirmation of balances from the related parties as reported in Note 29.2 to the financial statements were received enabling us to examine the accuracy and completeness of the balances stated. Hence the accuracy and the completeness of the balances stated could not be relied.

(i) Since three-quarters of business transactions are accounted by manual accounting, inventory and purchase of these outlets are included in the general ledger through journals. As a result, this process using spreadsheets has resulted in internal errors such as data skipping, duplication and underestimation of values.

(j) The difference identified therein amounts to Rs. 59,796,194 arising when compared to the total amount of balances i.e. Rs. 208,555,973 confirmed by the suppliers against the corresponding balances i.e. Rs. 148,759,779 shown as payable to them in the financial statements under trade payables. The total amounts of balances confirmed by the suppliers were in response to the confirmation of balances called on selected samples to a value of Rs. 2,764,648,192. Suppliers to a value of Rs. 2,615,888,413 were not responded.

(k) The receivable amount stated in the financial statements relating to input VAT payments on purchases amounting to Rs. 18,311,622 had not been claimed as Input Credit against the Output VAT payable in the VAT returned submitted to the Inland Revenue Department by the Company pertaining to the respective quarters during the current financial year. The input VAT amounts so recoverable is time bared and could not been claimed according to the Section 22 sub Section 6 of the VAT Act.

(l) The company had not paid VAT on certain income classified under other income in the financial statements although those income were not classified as exempt income in the exempt list under First Schedule Part 11 of the VAT Act; and will be liable for the payment of VAT. The amount so payable could not be quantified due to lack of documentary evidence and details

(m) The company had entered into an agreement on 10 June 2016, with a supplier to install a security camera system for a value of Rs. 142,292,252. The project was started in December 2016 and should have been completed in a maximum of four months but had not been completed by the date of audit.

(n) The Company had been awarded a contract worth Rs.198,175,784 on 18 November 2016, for a private company to provide, install, operate and maintain an Enterprise Resource Planning System (ERP System). The following observations are made in this regard.

(i) The contract had been awarded contrary to the provision in the Government Procurement Guidelines 1.2, 2.3.2 (c), 2.8.3, 2.5.1, 2.7.4, 2.8.1 (b), 2.11.1, 3.2.2(a), 4.2.1, 4.2.2, 4.2.3, 4.3.1, 4.3.2, 5.3.11, 5.4.1, 8.2.1, 8.3.1, 5.3.15 (b) ,6.3.2 and 7.7.1 (b) (ii)& (iii).

(ii) The Company had been entered into agreement with the contractor on 18 November 2016 and the contract period was 18 January 2017 to 20 April 2018. However, the project had not been completed by 30 June 2019 and no extension was made in accordance with the Procurement Guidelines 8.14.1

(iii) In accordance with section 17.1 of the agreement relating to the Project, the Contractor shall be liable for a loss equal to 1 percent of the contract value in respect of any damages or losses incurred by the contractor or any portion thereof or any other party without the buyer's written consent. According to the performance reports, the project had been delayed due to the contractor having received assistance from some other agency. However, no damages had been charged from the contractor for the delay.

(iv) As of the date of the audit, 375 days had elapsed since the completion date of the project; it was observed that a delay fee of 1 per cent of the contract amount should be charged according to the number of delayed days in terms of section 22.1 of the relevant agreement.

## 2. Financial Statements

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### 2.1 Disclaimer of Opinion

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

### 2.2 Report on Other Legal and Regulatory Requirements.

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As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the following;

(a) The basis for disclaimer of opinion and scope and limitations of the audit are as stated above.

(b) In my opinion:

- I have not been able to obtain sufficient and appropriate audit evidence that were required for the audit as stated in paragraphs (a) to (n) of this report and, as far as appears from my examination, no adequate accounting records have been kept by the Company.

- The financial statements of the company do not comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the financial result of the Company for the year under review had been a deficit of Rs. 2,773,680,592 as compared with the corresponding deficit of Rs. 5,130,038,519 for the preceding year, thus indicating a decrease of 46 per cent or Rs. 2,356,357,926 in the financial result of the year under review as compared with the preceding year. In comparison to last year, the total loss was Rs. 926,217,773, or 70 percent, and the decrease of stock losses had mainly attributed to the said decline in the deficit.

The analysis on the financial results for the year under review and 04 preceding years indicated that the net profit of the Company for the year 2013 amounting to Rs. 1,156,456,272 with fluctuation annually incurring losses of Rs.3,460,051,129, Rs.1,945,253,021, Rs.5,130,038,519 and Rs.2,773,680,592 in the years 2014, 2015, 2016 and 2017 respectively. However, when the employee remuneration, taxes paid to the Government, and depreciation were adjusted to the financial result, the contribution, which was a positive value of Rs. 2,416,461,468 in the year 2013. But, in the years 2014, 2015, 2016 and 2017 the contribution had recorded the minus values of Rs. 1,922,368,825, Rs.42,040,870, Rs.3,075,519,724 and Rs. 401,796674 respectively.