

Sri Lanka State Trading (General) Corporation Limited -2018/2019

1.1 Opinion

The audit of the financial statements of Sri Lanka State Trading (General) Corporation Limited (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 report to Parliament appear in this report.

It is my view that the financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards in a true and fair manner as to the financial position of the Company as at 31 March 2019 and its financial performance for the year ended.

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 to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company's 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 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.
- 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 Financial Statement

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to relevant standards.	Comment of the Management	Recommendation
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(a) Bank charges of Rs. 15,955,597 had not been stated as a separate item in the comprehensive income statement as per Section 82 of the Sri Lanka Accounting Standard No. 01	It has been noted and action will be taken to state under finance cost in the future.	Should comply with the provisions of the Sri Lanka Accounting Standard.
(b) In terms of Section 04 of the Sri Lanka Accounting Standard No. 38, a software system amounted to Rs. 833,333 that should be stated under intangible assets, had been stated under Property, Plant and Equipment.	It has been noted and action will be taken to state separately in next year.	Should comply with the provisions of the Sri Lanka Accounting Standard.

1.5.2 Accounting Deficiencies

Audit observation	Comment of the Management	Recommendation
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(a) Although the value of damaged and obsolete stocks in the year under review was Rs.12,803,353, value deducted from the final stock was Rs.12,248,760. Accordingly, the value of the stock had been overstated by Rs.554, 593.	Action will be taken to make corrections in the future.	Action should be taken to account for the correct value.
(b) Even though the value of damaged liquor stocks in duty free outlets was Rs.1,463,064, it had not been deducted from the value of the stock. Therefore, the value of final stock had been overstated by Rs.1,463,064.	Action has been taken to consult Sri Lanka Customs and look into the possibility of removing damaged stocks.	Action should be taken to remove the damaged stock from the value of final inventory.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit observation	Comment of the Management	Recommendation
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(a) No action had been taken to recover advance amount paid in respect of furniture amounted to Rs.632,000 which was purchased in 2015 and returned back.	Legal actions are being taken to recover money.	Action should be taken to recover money immediately.

- (b) Out of 15 debtor balances for which balance confirmations were called as a sample, balance confirmations had been received only for 02 debtor balances amounted to Rs. 17,619,666 and there was a difference of Rs.4, 865,764 between the balance in the financial statement and the confirmed balance. Action is being taken to reconcile balances confirmed by debtors and ledger account balances. Action should be taken to reconcile and correct the balance.

1.6.2 Payables

Audit observation	Comment of the Management	Recommendation
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(a) Action had not been taken to settle 06 trade and other payable balances having a sum of Rs.3,890,578 exceeded 05 years and 02 trade and other payable balances amounting Rs.15,037,583 exceeded 04 years.	Observations have been noted and management will take action to settle next year with the approval of the Board of Directors.	Action should be taken to settle the outstanding balances.
(b) Since a debtor balance of Rs.7,580,370 had been stated under creditors balances in the financial statements, creditors had been understated by Rs.7,580,370.	Answers have not been submitted.	Action should be taken to correct.
(c) Out of 71 creditor balances for which balance confirmations were called as a sample, balance confirmations had been received only for 13 creditor balances amounted to Rs.43, 946,775 and there was a difference of Rs.21,061,607 between the balance in the financial statement	Action is being taken to reconcile balances confirmed by creditors and ledger account balances.	Action should be taken to reconcile and correct the balance.

and confirmed balance.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Public Enterprises Circular No. PED/12 dated 02 June 2003 (i) Paragraph 5.1.3	In terms of the circular, action had not been taken to submit the copies of updated corporate plan approved by the Board of Directors along with the updated budget to Line Ministry, Department of Public Enterprises of the Treasury and Auditor General even though it should be submitted at least 15 days before the commencement of the relevant financial year.	Due to the absence of the Board of Directors during the relevant period the budget prepared could not be approved. Action will be taken to act accordingly in the future.	Action should be taken according to the circular.
(ii) Paragraph 9.3.1 Section 01	In terms of the circular, even though there should be a systematically prepared and approved scheme of recruitment for public enterprises, scheme of recruitment for the staff other than the top management had not been approved by Department of Management Services and staff recruitments had been carried out without due process.	Only a part of the scheme of recruitment has been approved and the rest has been sent for approval. Therefore recruitments have not been done properly.	Scheme of recruitment should be approved and recruitments should be done properly.

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| (iii) Paragraph 9.10 | In terms of the circular, the Treasury approval for contracts, casual or other forms of recruitment had to be obtained, but on the contrary, the staff had been recruited on contract and casual basis and the total amount of salaries and allowances paid to the staff in the year under review was Rs.46,460,747 and Rs. 11,060,030 respectively. | Employees have been recruited on contract basis to carry out the work of showrooms that have been opened. | Action should be taken to obtain Treasury approval for all recruitments. |
| (b) Public Enterprises Circular No. PED/03 dated 16 June 2015 Paragraph 2.1 and 2.8 | In addition to the allowable allowances as per the circular, amount of Rs. 1,079,333 at Rs. 100,000 per month and amount of Rs. 465,332 at 40,000 per month had been paid as entertainment allowances to Chairman and Working Director respectively and for that recommendation of Secretary of Line Ministry and the concurrence of the Minister of Finance had not been obtained. | These allowances have been paid with the approval of Board of Directors and action will be taken to obtain relevant approval in the future. | Mnagement should ensure whether allowances are paid after obtaining relevant approvals. |
| (c) Public Enterprises Circular No. PED/57 dated 11 February 2011 Section 02 | In terms of the circular, even though advertising expenses should be made after preparing an annual advertising plan in respect of the action plan and obtaining the approval of Department | It has been noted and action will be taken accordingly in the future. | Action should be taken according to the circular. |

of Public Enterprises, a sum of Rs. 1,865,814 had been spent as advertising expenses in the year under review without obtaining the approval.

2. Financial Review

2.1 Financial Result

The operating result after tax for the year under review amounted to a deficit of Rs. 27,040,732 and the profit for the preceding year amounted to Rs. 68,658,203 as against to that. Accordingly, a deterioration of Rs. 95,698,935 of the financial result was observed. The decrease in sales income of duty free shop had mainly attributed to this deterioration. The reduction in the sale of liquor was attributed to the new legislation enacted by the government on the sale of duty free liquor.

3. Operational Review

3.1 Resources released to the Ministry

Audit Observation

Contrary to section 9.4 of the PED / 12 circular dated June 02, 2003, three employees of the company had been assigned to the Line Ministry without obtaining an approval of cabinet of ministers and salaries and allowances of Rs.709, 800 had been paid for that staff in the year under review.

Comment of the Management

This staff has been recruited as media assistants and since currently there is no a media unit in the institute, they have been directed to the media unit of the Line Ministry and handle the media affairs of the institute. Only one employee is currently serving and the remaining two have resigned.

Recommendation

Action should be taken to obtain approval of cabinet of ministers and get the amount paid reimbursed.

3.2 Human Resource Management

Audit Observation

Comment of the Management

Recommendation

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| (a) Even though the approved cadre of the company was 329, the actual cadre was 405 as at 31 st March 2019. Accordingly, there were 223 staff excesses and 147 vacancies. The excess of the staff was 113 relevant to 10 approved posts and 110 relevant to 36 unapproved posts and 147 vacancies were relevant to 32 approved posts. | Recruitments have not been done for any unapproved posts. | Recruitments should be done only for approved posts. |
| (b) One officer had been appointed for two posts of Marketing Development Coordinator and Ministry Coordinating Officer which were not included in approved cadre and according to the personal file of that officer it was not proved that he had obtained any educational or professional qualification. The total amount of salaries and allowances paid to the relevant officer during the year under review amounted to Rs.1,095,753. | The relevant officer was temporarily recruited to coordinate the sales activities of the Saindamarudu Branch, which was to be initiated at that time and the allowance for an assistant manager on contract basis has been paid. With the resignation of the then Ministry Coordinating Officer he has been appointed to that post and paid the allowance which has been paid to that officer and he has resigned from 31 st May 2019 , | Qualified personnel should be recruited for approved cadre. |

(c) An officer who was recruited as a Marketing Executive on contract basis in 2014 had been appointed beyond the formal procedure to various posts including Coordinator, Acting Assistant Manager and Assistant Manager from time to time and for those posts allowances had been paid without the approval of the Treasury. Accordingly, the total amount of allowances paid during the year under review amounted to Rs. 939,600.

Since there was no even a draft scheme of recruitment at the time of recruitment, the officer has been recruited to the post of Marketing Executive. Base on the service requirement, officer has been recruited to various posts and allowances relevant to permanent post of Assistant Manager and a coordination allowance are also paid for the duties performed in addition.

Action should be taken to recruit qualified personnel for the approved cadre and make payments with the approval of the Treasury.