Report of the Auditor General on the Transactions of Lanka Salusala Company Limited for the Year of Accounts from 01 April 2022 to 31 March 2023

The audit of the operations of the Lanka Salusala Company Limited ("Company") for the period ended 31 March 2023 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. The financial statements from the year 2010/2011 up to 2022/2023 to be presented in terms of Section 150 (1) of the Companies Act No.7 of 2007 had not been presented even by 30 November 2023. My observations on the operations of the Company which I consider should be reported to Parliament in pursuance of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

As per Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16 (2) of the said Act, the annual financial statements in respect of every auditee entity, shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports, within such period as may be provided by rules. In terms of Section 38 (1) (d) of the said Act, the Chief Accounting Officer shall ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity.

1.3 Presentation of Financial Statements

Although the financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the expiry of the year of accounts in terms of Section 6.6 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, the Company had not furnished financial statements and draft annual report to the Auditor General continuously for 13 years of accounts from the year 2010/2011 to 2022/2023, even by the date of this report.

2. Audit Observations

2.1 Assets, Liabilities, Revenue and Expenditure

Particulars on assets, liabilities, revenue and expenditure given in the financial statements for the year of accounts, 2009/2010 ended as at 31 March 2010, are as follows.

	Value
Assets	**Rs.**
Non-current Assets	25,872,950
Current Assets	249,749,110
Total Assets	275,622,060
Liabilities	
Current Liabilities	600,227,603
Non-current Liabilities	42,756,078

Capital and Reserves	(367,361,621)
Total Liabilities and Capital	275,622,060
Gross Profit	41,985,160
Other Revenue	135,085,512
Total Expenditure	96,858,843
Deficit of the Year	80,211,829

It was observed that there existed liabilities more than twice the amount of assets of the Company as at 31 March 2010. Furthermore, the value of current liabilities had exceeded the current assets by Rs. 350,478,493 and it was observed that going concern of the Company had been under threat.

2.2 Going Concern of the Company

Audit Observation	Comment of the Management	Recommendation
The value of profit that had been last presented to the Audit by the Company for the year ended as at 31 March 2010, amounted to Rs. 80,211,829 whereas the loss for the year ended as at 31 March 2009 amounted to Rs.72,829,342. Except for Jawatta and Nugegoda, all the sales outlets and manufacturing plants islandwide had remained closed by the year 2023 with machinery unused. According to the financial statements for the year ended as at 31 March 2010 that had been last presented to the Audit, the value of working capital had reached the negative sum of Rs. 350,478,493. Despite being observed that only 09 permentant employees except for the Chairman had been in service during the year ended as at 31 March 2023, ten employees had been recruited on daily basis whereas 05 employees had been recruited on contract basis in addition to that staff. Furthermore, it is not observed that action had been taken by the Board of Directors in terms of Section 220 of the Companies Act to secure the existence of the Company.	Not commented.	The working capital should be managed.

2.3 Non-compliance with Laws, Rules, and Regulations

Instances on non-compliances with Laws, Rules, and Regulations are given below.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Management	Recommendation
a) Companies Act No. 07 of 2007.			
(i.) Section 131 (1).	Every Company should furnish an annual report (Format No. 15) to the Registrar of Companies. But, this requirement had been neglected since the year 2013.	Not commented.	It is necessary to comply with legal provisions of the Companies Act No. 07 of 2007.
(ii.) Section 170 (1).	The financial statements along with the report of the Auditor had not been delivered annually to be registered with the Registrar of Companies.	Not commented.	Do.
b) Section 21 of the Value Added Tax Act No. 14 of 2002.	The taxes recovered by the Company with respect to the preceding years and the tax totaling Rs.1,788,996 recovered for the year under review, had not been remitted to the Department of Inland Revenue.	Not commented.	The taxes recovered should be remitted to the Department of Inland Revenue without delay.
c) Sections 16 and 27 of the Employees' Trust Fund Act No. 46 of 1980.	Due to failure in remitting contributions for the period 2019-2021 to the Employees' Trust Fund prior to the last date of the ensuing year, a fine totaling Rs. 118,409 had been paid in the year under review.	Not commented.	Contributions to the Employees' Trust Fund should be remitted prior to the last date of the ensuing month.
d) Section 3.4.1 of the Procurement Guidelines-2006 dated 25 January 2006, and Procurement supplement No 35 of dated 25 March 2020.	Five sealed quotations should have been obtained under standard formats from institutions mentioned in Sri Lanka Telecom Yellow Pages under the shopping method. However, open bids had been obtained from institutions, and purchases worth Rs.11.536	Not commented.	Five sealed quotations should be obtained from institutions mentioned in Sri Lanka Telecom Yellow Pages and evaluated.

	million had been made in excess of the approvable limit of expenses being Rs. 10 million		
e) Paragraph 3.5 of the Public Enterprises Circular, No. 02/2013 dated 11 September 2013.	Due to delay in paying gratuity to the employees eligible for such payments, a surcharge of Rs. 153,036 had been paid.	Not commented.	Measures should be taken to settle gratuity payments without delay.
f) Paragraph 6.7 of the Operational Manual for State Owned Enterprises issued with the Public Enterprises Circular, No. 01/2021 dated 16 November 2021.	Assets had not been verified annually, and inventory books had not been maintained with respect to each division.	Not commented.	Action should be taken to verify assets annually.
g) Public Finance Circular, No. 01/2020 dated 28 August 2020.			
Paragraph 9.1 (b) of Part I.	Ad hoc Sub-Imprests to the maximum of Rs. 100,000 shall be given to staff grade officers for specific purposes. The staff grade officer should settle the sum as soon as the completion of intended purpose. Nevertheless, the sub-imprest of Rs. 20,000 given to an officer 07 years ago, had not been settled, and ad hoc Sub-Imprests totaling Rs. 92,465 had been given to 02 officers in 12 instances, but without being used for the intended purpose, those monies had been retained for 04-08 months before being settled.	Not commented.	The ad hoc Sub-Imprests should be settled soon after completion of the intended purpose for which it was given.

2.4 Management of Funds

Audit Observation	Comment of the Management	Recommendation
a) According to the bank reconciliation statement as at 31 March 2022, there existed a balance of Rs. 11,167,854 in the cash book. However, a sum of Rs. 11,662,045 had been shown as the opening balance as at 01 April 2022, and hence, the opening balance had differed by a sum of Rs. 494,191.	Not commented.	Closing balance of the preceding year should be brought forward as the opening balance of the ensuing year.
b) Receipts totaling Rs.4,069,567 credited in 31 instances to 03 bank accounts in the year under review, had not been recognized and brought to accounts. Instead, those amounts had been shown in the cash book as "receipts of deposits", thus indicating that "there existed no unidentified receipts despite being credited to the bank" when preparing the bank reconciliation statements. Action had not been taken to settle the balances in the account for receiving deposits.	Not commented.	Action should be taken to recognize the unidentified receipts credited to the bank.
c) An application had been used when paying ad hoc Sub-Imprests to various officers. Without being mentioned as a payment, such applications had been retained by the cashier as an evidence to making payments. Total of those ad hoc Sub-Imprests, had been considered as a sum of cash in hand.	Not commented.	The ad hoc Sub-Imprests should be noted as payments. The amount paid, should not be shown as a part of cash in hand.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) Eighty nine per cent of the profit earned in the year under review, had been obtained from goods supplied to Government institutions by adding a profit margin. That profit margin ranged between 30-444 per cent.	Not commented.	As an intermediary, action should not be taken to supply goods to Government institutions at higher profit margins.
b) According to the letter of the Special Task Force for awarding procurements dated 06 January 2021, it was required to supply 6000 white vests within 90 days.	Not commented.	Should be supplied without delay, and the revenue should be correctly

	However, even after 09 months, 4,048 vests could not be supplied, thus depriving of an income amounting to Rs.647,680. Although it was expected to earn a profit of Rs.29,280 with respect to the 1952 vests supplied, a sum of Rs.64,786 had been paid as penalties for delay, thus sustaining a loss of Rs.35,506 from that sale. Furthermore, the sum of Rs.272,537 received on 09 December 2022 with respect to the said sale, had not been recognized and brought to accounts.		identified and brought to accounts.
c)	Textiles obtained on the basis of sale or return.		
(i.	Instead of providing the manufacturers with equal, fair and maximum opportunities when obtaining textiles, textiles had been purchased only from selected intermediaries. Thus, the purchasing price had increased and selling price had been decided by adding a 30 per cent profit margin. As such, price of textiles of the Company had increased compared to the market price.	Not commented.	Action should be taken to provide the manufacturers with equal, fair and maximum opportunities.
(ii.	A legal agreement had not been entered into with the suppliers with respect to period of retention for textiles of the Company, making payments for textiles sold, and returning the unsold textiles. As such, textiles obtained on the said basis had remained on display in the sales outlets for a period of 03-14 months as at 20 July 2023, but there were unsold stock worth Rs.2,261,653. Furthermore, it was observed in the physical inspection conducted on 20 July 2023, that those stocks had been returned to the supplier without removing the name tag of “Salusala”.	Not commented.	Retention of textiles, making payments, and returning the unsold stocks, should be done under a legal consent. The “Salusala” name tag should be removed when the stocks are returned to the supplier.
(iii	It is the policy of the Company to make payments after selling the textiles. But, it was found in examining a sample that contrary to the said policy, payments had been made for stocks at the outlet in Jawatta comprising a sum of Rs. 191,300 relating to 55 unsold items pertaining to a supplier and a sum of Rs. 6,700 relating to 10 items of another supplier. Furthermore, there existed a creditors’ balance of Rs. 789,060 for which no payments had been made despite being sold as at 14 July 2023.	Not commented.	Action should be taken in accordance with the policy of the Company with respect to making payments for the textiles purchased.

d)	Without obtaining an assessment of the Government, agreements dated 14 and 24 October 2022 had been entered into with respect to a building in Mulleriyawa to be given on lease to two companies for a period of 05 years. One of those companies had been incorporated on 17 October 2022 after the date of agreement. As such, validity of this agreement remained questionable in audit.	Not commented.	Assessments should be obtained for Government properties, and validity of institutions should be taken into consideration before entering into agreements.
e)	The lease agreement of the textile mill building in Thalangama for a period of 10 years had expired as at 07 June 2016. The land and the buildings had been used by the lessee without an agreement over a period of 07 years as at the date of audit. Furthermore, the lease documents had not been maintained properly by the Company; hence, the outstanding lease rents could not be verified. Although a sum of Rs. 2,768,620 had been paid during the year under review, it was not reveled as to the period for which that payment had been made and the value of the outstanding lease rent.	Not commented.	New lease agreements should be entered into as the old ones become expired. The outstanding lease rents should be recovered by properly maintaining the documents.
f)	An extent of 01 rood and 18 perches from a land in Gothatuwa given on lease to a monk by the Commissioner of Lands under the Crown Lands Ordinance, had been subleased to a company for a period of 50 years with effect from 01 January 1975. That company had incurred expenses for constructing buildings at that land without acquiring rights to the land, and there existed no records in that connection. Furthermore, without being approved by the Commissioner of Lands, the land had been given on sub-lease to a private institution by the company through the Lease Agreement No. 190 for a period from 13 October 2008 to 21 October 2021; and, the property is being used by the said institution since March 2011 without paying lease rents to the company or the office of the land commissioner.	Not commented.	Buildings should not be constructed at lands without taking over rights. The leased lands should not be subleased without being approved by the Commissioner of Lands. Furthermore, records on capital expenses should be properly maintained.
g)	The building in Ampara, had been given on lease to a private institution for the period from 16 February 2023 to 15 February 2033 at the monthly lease rent of Rs. 60,000. However, an assessment report was not made available to the Audit.	Not commented.	An assessment report should be obtained for properties before being given on lease.
h)	Registers relating to debtors and creditors relating to the period 2022/23 had not been maintained in an updated manner.	Not commented.	Registers relating to debtors and creditors should be maintained in an up-to-date manner.

i) Due to failure in complying with the agreement relating to a building in Jawatta given on lease to a private institution in the year 2011 at a sum of Rs. 11.2 million, that institution had filed a case against the Company.	Not commented.	The agreements entered into on transactions performed with external parties should be complied with.

3.2 Idle and Underutilized Assets

Audit Observation	Comment of the Management	Recommendation
a) Balances ranging between Rs. 10-17 million remained in the current accounts during April-November of the year under review. Despite the interest rate as high as 15-23 per cent on market investments during that period, action had not been taken to earn benefits by investing those excess funds; instead such funds remained idle.	Not commented.	Action should be taken to productively invest the balances in current accounts rather than being retained idle.
b) The land at Gonulla in extent of 31.4 perches consisting of 03 buildings leased through a letter of transfer in the year 2022, and the land in Angunakolapelessa in extent of 01 rood with a two storied building owned by the Mahaweli Authority that had been obtained on lease in the year 2012, had not been legally taken over by the Company; and, those lands remained idle even by the date of audit.	Not commented.	Lands and buildings should be utilized productively, and those properties should be legally acquired by the Company.
c) It was informed to the office of the Deputy Commissioner of Lands, Debarawewa that the land in Weeraweila in extent of 03 roods and 18.68 perches, had been allocated for the Company since 2018. Nevertheless, action had not been taken to take over that land.	Not commented.	Action should be taken to take over the land and ensure productive utilization.
d) The land in extent of 01 rood and 16 perches with buildings located in Kalutara, Beruwala and the land in extent of 01 acre and 30. 6 perches in Unawatuna to be transferred to the Handicrafts Board, remained idle even by the date of audit.	Not commented.	Effective utilization of assets. should be ensured.
e) An agreement had been entered into in December 2022 that the manufacturing institution located in a land in extent of 01 acre 01 rood and 39.5 perches	Not commented.	Action should be taken in accordance with the agreement.

	in Galagedara comprising 03 buildings along with the inventories be allowed to be used by the Department of Textiles of the Central Province and part of the production be given to the Company. Nevertheless, action had not been taken to give a part of the production to the Company as agreed even up to the present day.		
f)	Although 20 sewing machines had been repaired in the year under review at an expenditure of Rs. 194,410, those machines remained underutilized whilst 54 sewing machines remained non-functional.	Not commented.	Productive utilization of assets should be ensured.