

Sri Lanka State Trading (General) Corporation Ltd. – 2016/2017

The audit of the financial statements of Sri Lanka State Trading (General) Corporation Ltd. (“the Company”) for the year ended 31 March 2017 comprising statement of financial position as at 31 March 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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.

My observations on the operations of the Company for the year under review which I consider should be tabled in Parliament in terms of provisions in 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

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka State Trading (General) Corporation Ltd. as at 31 March 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

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

- (a) The basis of opinion and scope and limitations of the audit are as stated follow
- (b) In my opinion:
 - I have obtained all, the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company and
 - the financial statements of the Company comply with the requirements in Section 151 of the Companies Act No.07 of 2007.

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

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Public Enterprises Circular No.PED/1/2015 of 25 May 2015.	
(i) Section 2	Contrary to the circular instructions, a sum of Rs.3,180,000 had been paid as transport allowances to 21 officers during the year under review who were not entitled for official vehicles.
(ii) Section 3.3	Contrary to the circular instructions, a sum of Rs.480,000 had been paid as transport allowances to 2 officers during the year under review who had been using official vehicles.
(iii) Section 3.1 and 3.2	Fuel expenses of Rs.728,588 had been reimbursed to the Chairman and the Working Director during the year under review in excess of their monthly fuel limits and no approval therefor had been obtained.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review had been a surplus of Rs.39,988,886 as compared with the surplus of Rs.26,677,844 in the preceding year. An improved of financial results in the year under review amounting to Rs.13,311,042 or 49 per cent had indicated as compared with the preceding year. Even though the distribution and administrative expenses had increased by Rs.23,902,194 and Rs.79,337,980 respectively, the increase of gross income and the interest income by Rs.98,370,707 and Rs.21,172,322 respectively had mainly attributed to this improvement.

In analysing the financial results for the year under review and the preceding 4 years, the net profit after tax of the Company in the financial year 2012/ 2013 amounting to Rs.66,940,292 had gradually decreased in the financial years 2013/2014 and 2014/2015 and it had increased gradually since the year 2015/2016 and become Rs.39,988,886 in the financial year 2016/2017. When adjusted employees remuneration, government taxes and depreciations to the financial results, the contribution of the Company amounting to Rs.309,547,112 in the financial year 2012/2013 had increased up to Rs.419,451,510 in the financial year 2016/2017 with fluctuations.

4. Operating Review

4.1 Performance

As stated in the corporate plan the objectives expected to be achieved by the Company are as follows.

- Sale of varied goods thereby stabilizing the market.
- Representing reputed and reliable trade names in the international market in out country.
- Propagations of the name of the Company by improving revenue and the profit of the entity.
- Achievement of development targets through efficient fulfillment of public sector requirements.
- Launching major products of the Company in investment activities in order to fulfilling consumer needs.
- Improving productivity, paying regular attention to State Customers and employees.

It was an objective of the Company to increase profits by increasing sales income and the Company could be able to increase sales income by 27 per cent in the year under review, as compared to the previous year.

4.2 Resources of the Company given to other government institutions

Ten officers belonging to the staff of the Company had been attached to the Line Ministry without the approval of the Board of Directors in terms of Section 9.4 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and a sum of Rs.2,157,700 had been paid to them as salaries and allowances in the year under review.

4.3 Unresolved audit paragraphs

Necessary action had not been taken in respect of deficiencies show in the audit paragraphs included in the Auditor General's reports relating to the Company. Particulars are given below.

Reference to Auditor General's Report		Observations	
Year	Paragraph No.		
(a)	2015/16	2.2.1 (c)	Non-recovery of a sum of Rs.1,756,220, receivable for the supply of Air conditioners to a construction company.
(b)	2015/16	4.3 (b)	Keeping 35 mobile stores (Kokoon) valued at Rs.75,171,712 in the stores purchased, without being identified the saleability.

4.4 Procurement Process

The following observations are made in respect of obtaining a building on rent basis for the establishment of a market stall and an office since 01 November 2013 at a monthly rental of Rs.565,000 and to incur a sum of Rs.16,281,285 for its renovations.

- (a) The supplier had been selected, deviating procurement procedure.
- (b) Even though an agreement had been entered into for the renting the building, it had not been properly prepared and not registered with the office of the Land Registry.
- (c) The building taken on rent in November 2013 had not been utilized up to November 2015, but a sum of Rs.13,329,000 had been spent as rent during that period. Subsequently, it was decided to quit the building due to disagreement with the land owner. Fixed assets and unsold stock of goods valued at Rs.2,128,790 had been sold by auction for Rs.1,000,000 on 16 June 2016 without approval and a formal valuation, which was less than the total value of goods by Rs.1,128,790.
- (d) This building, obtained on rent basis for a period of 10 years from November 2013 had not been utilized for the intended purpose and as such the building had to be departed in August 2016, after 3 years. As a result, a sum of Rs.10,636,782 from the sum of Rs.16,281,285 incurred on renovation had been written off against the profit and as such it was observed in audit that the Company had incurred a financial loss by that amount.

4.5 Personnel Administration

The approved cadre and the actual cadre of the Company as at 31 March 2017 had been 329 and 425 respectively and excesses and shortages in the staff amounted to 106 and 10 respectively.

The following observations are made in this regard.

- (a) A scheme of recruitment had not got approved in terms of paragraph 9.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and 106 officers/ employees had been recruited in excess of the approved cadre without formal approval.
- (b) Existence of 10 vacancies in the higher and middle level management posts had affected for decision making and supervisory functions. Action had not been taken to fill those vacancies even by the end of the year under review.

5. Accountability and Good Governance

5.1 Establishment of the Company

This Company had been incorporated as a Corporation under the Sri Lanka State Trading Corporation Act No.33 of 1970. It had subsequently been registered in the name of Lanka General Trading Co.Ltd. under the Companies Act No.17 of 1982 and then registered again in the name of Sri Lanka State Trading (General) Corporation Ltd. under the new companies Act No.07 of 2007 as a Limited Liability Company.

5.2 Presentation of Financial Statements

The draft annual report along with the annual financial statements should be presented to audit within 60 days after the close of the financial year in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. However, the financial statements for the year under review and the draft annual report had been presented only on 14 September 2017 and 27 April 2018 respectively.

6. Systems and Controls

Weaknesses in systems and control were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of systems and controls.

Area of Systems and Control

Observations

(a) Procurement Process	Non-compliance with Government Procurement Guidelines.
(b) Stock Control	Existence of weakness in maintaining stock and stock records.
(c) Debtors and Creditors Control	Action not taken to settle long term debtors and creditors balances.
(d) Operating and Financial Control	(i) Not taking action in respect of losses in terms of financial regulations. (ii) Existing Management Information System not updated. (iii) Investment of excess cash in fixed deposits and obtaining short terms loans for cash requirements.