Sri Lanka State Trading (General) Corporation Limited – 2017/2018

The audit of financial statements of Sri Lanka State Trading (General) Corporation Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the comprehensive income statement, statement of changes in equity and the 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. My observations on the performance of the Company for the year under review in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of 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 Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.2 Report on other Legal and Regulatory Requirements

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

(a) The basis of opinion and the scope and limitations of the audit are as stated in this report.

(b) In my opinion,

- I have obtained all the information and explanations that were required for the audit, subject to matters described in the paragraph of basis for qualified opinion and as far as appears from my examination, proper accounting records have been kept by the Company,

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Even though a sum of Rs.41,468,114 had been shown as the balance of Government grants in the financial statements as at 31 December of the year under review, in terms of paragraph 39(a) of Sri Lanka Accounting Standard 20, the accounting policies adopted for Government grants had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The balance of Rs.190,933.790 of the Build-up-Margin Account which should be shown as cash and cash equivalents in the statement of financial position had been shown under Trade and other receivable balances.

(b) In terms of paragraph 6(2) of the Inland Revenue Act, No.24 of 2017, in selling a land, tax should be paid for the gain from capital assets. As such, the lands shown in the financial statements should be revalued and the effect of the surplus generated therefrom should be considered in computing annual deferred tax. However, action had not been taken accordingly by the Company.

(c) The software system valued at Rs.802,208 which should be shown under intangible assets, had been shown under tools and equipment.

(d) A sum of Rs.625,000 which should be accounted as security deposits had been brought to account as tools and equipment.

2.3 Non-compliances with Laws, Rules Regulations and Management Decisions

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The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliances
(a) Public Enterprises Circular No. PED/57 of 11 February of 2011	A sum of Rs.5,044,701 had been spent in the year under review as advertising expenses on the approval of the Chairman/General Manager without obtaining approval of the Department of Public Enterprises after preparing an annual advertising plan in compliance with the Annual Action Plan in terms of the Circular. It was further observed that nearly 50 per cent of the said expenditure had been incurred for souvenirs and Television programmes of various institutions irrelevant for the promotion of products and services of the Company.
(b) Public Enterprises Circular No. PED/1/2015 of 25 May 2015	
(i) Section 2	Contrary to provisions in Circulars, a sum of Rs.3,060,000 had been paid on approval of the Board of Directors as transport allowances in the year under review for 20 officers who were not entitled to official motor vehicles.
(ii) Section 3.3	According to provisions of Circulars, the transport allowance could not be paid to an officer who uses an allocated motor vehicle. However, a sum of Rs.460,000 had been paid in the year under review to two officers who use allocated motor vehicles.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a surplus of Rs.68,658,203 as compared with the corresponding surplus of Rs.39,988,886 for the preceding year, thus indicating an improvement of Rs.28,669,317 representing 71 per cent in the financial result of the year under review as compared with the preceding year. The increase in the income from sales by Rs.585,509,922 had been the main reason therefor.

An analysis of the financial results for the year under review and 04 preceding years revealed that the net profit after tax of the Company which was Rs.50,687,678 in the financial year of 2013/2014 had decreased in the financial year of 2014/2015 and gradually increased again from the financial year of 2015/2016 and become Rs.68,658,203 in the financial year of 2017/2018. In readjusting employees' remuneration, tax paid to the Government and depreciation to the financial result, the contribution of the Company which was Rs.345,907,882 of the financial year 2013/2014 had decreased in the financial year of 2014/2015 while it had gradually increased from the following year and become Rs.521,452,661 in the financial year of 2017/2018.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) In terms of Section 5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, a Corporate Plan had not been prepared for a period not less than three years for achieving the vision and mission of the Company.

(b) Even though an Action Plan had been prepared for achieving the objectives of the Company, progress reports thereon had not been prepared.

4.1.2 Function and Review

Sale of varied goods, representing reputed and reliable trade names in the international market in our country, improving revenue and the profit, efficient fulfillment of public sector requirements and consumer needs and improving productivity through development of employees were the key objectives of the Company. Accordingly, the Company had succeeded in increasing the gross profit of the year under review by 19.7 per cent as compared with the preceding year. However, the said increase had occurred due to 66 per cent contribution of both the Chemical Sales Division and the Duty Free Shop out of 10 Sales Divisions, while a considerable improvement could not be observed in other Divisions.

4.2 Operating Activities

Warehouse charges of Rs.367,400 had to be paid due to the delay in issuing a stock of goods to the Industrial Development Board, purchased on an order on behalf of that institute.

4.3 Staff Management

The approved cadre and the actual cadre of the Company as at 31 March 2018 stood at 329 and 440 respectively and the following observations are made in that connection.

(a) In terms of Section 9.3 of Public Enterprises Circular No. PED/12 of 02 June 2003, approval for a Scheme of Recruitment had not been obtained. Moreover, 221 officers/employees had been recruited exceeding the approved cadre without proper approval and action had not been taken to recruit staff for the 110 approved posts.

(b) The vacancies in 03 posts of Deputy General Manager, 02 posts of Assistant General Manager and 04 posts of Manager had affected decision making and supervision and action had not been taken even by the end of the year under review to fill those vacancies.

4.4. Resources of the Company given to other Government Institutions

Nine officers belonging to the staff of the Company had been attached to the Line Ministry without the approval of the Cabinet in terms of Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and a sum of Rs.2,078,721 had been paid to them as salaries and allowances in the year under review by the Company. However, action had not been taken to have the said expenses reimbursed from the Ministry.

4.5 Underutilized Assets

A land of 198 perches in extent assessed at a value of Rs.67,900,000 located in Rajagiriya, belonging to the Company and a building of 20,000 square feet in extent assessed at a value of Rs.15,000,000 had been exchanged with a building located in Welisara of the Co-operative Wholesale Establishment a few years ago and the following observations are made thereon.

(a) The date of exchange of the building and an agreement relating thereto or any other legal document had not been made available to Audit.

(b) The said land and building had been handed over to the Presidential Security Division in the year 2011 by the Sathosa Chairman according to instructions of the then Minister in charge of the line Ministry and at present it is used by the Police Special Task Force. Moreover, the Co-operative Wholesale Establishment (Sathosa) had paid a sum totalling Rs.6,720,000 as rental from April 1999 to November 2002 to the Company and afterwards rental money had not been paid. Even though the Company had requested from time to time to hand over properties, they had not been handed over even by 26 July 2018, the date of Audit. Nevertheless, the Company had paid a sum of Rs.299,250 as rates relating to the year under review for the said building.

(c) The Sathosa had rented out 02 stalls located on the above mentioned land to an external party and the Company had not taken action to obtain rental money relating thereto.

(d) Even though this land and building was owned by the Company, space facilities thereof had been inadequate. As such, a building in Narahenpita owned by the Ministry of Rural Economy had been obtained on rental basis and a sum of Rs.14,582,700 had been paid from June 2013 to March 2018 therefor.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of the Year 2030 Agenda of the United Nations on sustainable development and the State Trading (General) Corporation Limited had not been aware of the manner in performing the functions that come under its scope relating to the year under review.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Public Enterprises Circular No. PED/12 of 02 June 2003, the annual financial statements and the Draft Annual Report should be presented to the Auditor General within 60 days after the closure of the financial year. However, the financial statements for the year 2017/2018 had been presented only on 13 September 2018.

6.2 Internal Audit

Even though an Internal Audit Unit had been established and attached a staff consisting four persons, that staff had been inadequate in covering the internal audit activities of the Company.

6.3 Procurements

The following observations are made.

(a) Three premises located in the Economic Centre in Narahenpita (Nos. 07, 08 and 10A) had been obtained on rental basis by the Company for maintaining a showroom and store and the following observations are made in this connection.

(i) Even though a sum of Rs.4,143,600 had been paid as rentals at the rate of Rs.207,180 per month for premises No.07 from January 2017 to 31 August 2018, the date of Audit, no agreement had been entered into between the two parties.

(ii) A sum of Rs.272,740,141 had been spent by the Company for arranging premises No.08 in a manner suitable for maintaining a showroom and none of the conditions relating to setting off the said sum against the building rental or recovery of same had not been included in the agreement.

(b) Premises No.01 and 02 from 01 April 2014 to 31 March 2019 and premise No.03 from 01 November 2014 to 31 October 2017 of the building of Jaffna Multi-Purpose Co-operative Society Limited had been obtained on rent for 05 years and 03 years respectively for maintaining the Jaffna sales outlet and agreements had been entered into for the payment of a monthly rental of Rs.40,000 and the following observations are made thereon.

(i) Even though an advance of Rs.960,000 had been paid to the owner of the building relating to premises No.01 and 02, action had not been taken to settle the advances and conditions relating thereto had not been included in the agreement as well.

(ii) An advance of Rs.480,000 had been paid to the owner of the building for premises No.03 and action had been taken to handover the relevant premises by the end of the period agreed, without recovering the advance.

6.4 Unresolved Audit Paragraphs

Instances in which rectifications had not been made by the Company in respect of deficiencies pointed out by audit paragraphs included in reports of the Auditor General in the preceding years relating to the Company, are as follows.

Auditor General's Report	Reference to Paragraph	Observations
(a) 2015/16	2.2.1 (c)	Failure in recovery of Rs.1,756,220 for air conditioners supplied to a contractor.
(b) 2015/16	4.3 (b)	Failure in taking action to sell 35 cocoon stores valued at Rs.75,171,712 purchased without identifying the requirements of farmers.
(c) 2016/17	2.2. (a) (1)	Payment of a sum of Rs.3,180,000 as transport allowances for 21 officers who are not entitled to official vehicles.
(d) 2016/17	2.2 (a) (11)	Payment of Rs.480,000 as

			transport allowances for two officers using official vehicles.
(e)	2016/17	2.2 (a) (111)	Reimbursement of fuel expenses of Rs.728,588 exceeding the monthly fuel limit for two officers without approval.
(f)	2016/17	4.2	Payment of Rs.2,157,700 as salaries and allowances by the Company, by attaching ten officers of the staff of the Company to the line Ministry without Cabinet approval.

7. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of the following areas of controls.

Areas of Systems and Controls	Observations
(a) Accounting	(i) In the preparation of financial statements, preparation of accounts based on pre-usage than procedures and methodologies. (ii) Failure in updating the existing management information system (iii) Failure in following accounting policies (iv) Non-classification of loans as short term and long term
(b) Internal control	Unavailability of a formal documented internal control procedure
(c) Procurement	Failure in following certain Procurement Guidelines
(d) Control over Stocks	Weaknesses in stock control and maintaining stock reports
(e) Trade and other balances receivable	Failure in the recovery of long outstanding trade and other balances receivable
(f) Financial Management	Investing of surplus money, in fixed deposits and payment of interest by obtaining short term loans for financial requirements.