Lanka Sathosa Limited - 2019

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Lanka Sathosa Limited ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the profit and loss statement, statement of changes in equity and cash flow statement 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.

In my opinion, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the financial statements do not give a true and fair view of the financial position.

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is 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 (Auditor's Responsibility for Financial Statements)

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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Although inventory should be measured at the lower of cost and net realizable value according to the Sri Lanka Accounting Standards 2, inventory had been accounted at a cost by the company. Various errors such as inherent errors, data omissions, errors in double entries, and over and under value entries were observed due to the manual accounting system in the 2/3 of the island wide outlets network. Accordingly, it could not be determined or qualified the potential financial impact of the inventory value of Rs;4,050,649,263 to the financial statements regarding the cost of sales and the current assets. The final stock of the company as at 31 December for the year under review had not been physically verified and an age analysis of the inventory had not been submitted for audit.	Comments had not been made.	Stocks should be accounted at the lower of cost and net realizable value according to the Standard. The accounting system should be upgraded to identified cost of stock through the accounting system and physically verified.

(b)	The stock loss had been deduced from the purchases for the year without maintaining a separate account and had not been shown separately in the financial statements as per the paragraph 34 and 36 of the Sri Lanka Accounting Standards 2. The cost of stock loss so deducted during the last year and the year under review were Rs.271,125,743 and Rs.193,280,144 respectively.	Comments had not been made.	Stock losses should be shown separately in the financial statements and recovered from the responsible parties.
(c)	The company's cash flows had not been accurately identified in accordance with Sri Lanka Accounting Standards No. 7, as the investment in purchasing property, plant and equipment was understated by Rs.24,182,250 and the government grant was understated by Rs.74,530,408 in the cash flow statement.	Comments had not been made.	Correct cash flows should be identified in preparing cash flow statement.
(d)	According to the paragraph 36 of the Sri Lanka Accounting Standards No.16, when assets revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued, but all assets relating to the building had not been revalued.	Comments had not been made.	Action should be taken in according with the Standard.
(e)	According to the paragraph 14 of the Sri Lanka Accounting Standards No. 24, information of the related parties should be disclosed in the financial statements but the relevant information had not been submitted to the audit.	Comments had not been made.	Action should be taken in accordance with the standard.
(f)	Total amount of Rs.604,664,264 due from 10 external parties of the company from the year 2010 to the year 2018 had been impaired during the period of 2015 – 2018 and had to be reviewed annually in terms of the paragraph 114 of Sri Lanka Accounting Standards No.36 but had not been done.	Comments had not been made.	Action should be taken in accordance with the standard.
(g)	According to the paragraph 86 and 89 of the Sri Lanka Accounting Standards No.37, the financial impact of each case should be disclosed in the financial statements regarding the cases filed against the Company by external parties and against external parties by the Company, but action had not been taken accordingly.	As there is no probability of any eventuality by the year 2019 as indicated by the notes in the financial statements	Financial effect should be indicated by the notes in the financial statements.

(h)	The intangible assets of the Company amounting to Rs.72,545,632 had not been revalued in accordance with the paragraph 75 of the Accounting Standards No. 38 of Sri Lanka and the effective lifetime of the Intangible Assets had not been reviewed and impairment rate had not been revised in accordance with the paragraph 109 of the Standard.	Comments had not been made.	Action should be taken in accordance with the Standard.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Revaluation gain amounting to Rs.558,873,306 was reported in the statement of financial position and the comprehensive income statement but it had been reported in the property, plant and equipment notes as a loss amounting to Rs.248,090,171. This difference was due to the adjusting of the value of misplaced assets but recorded in the fixed assets register and the assets removed from the fixed assets register. Accuracy of the cumulative depreciation of Rs.805,423,202 pertaining to these misplaced assets could not be verified.	The property, plant and equipment note was amended and returned with the approval of the board of directors.	Financial Statements should be properly prepared as amendments are not allowed after submission to the Auditor General. Action should be taken as per financial regulation in this regard.
(b)	The initial balance of the ledger's property, plant and equipment was Rs.1,045,174,713 more than the initial balance of the fixed asset register and in this difference, there was a collection of unidentified initial balances of Rs.529,010,712 from 2013 onwards. Further, the assets valued at Rs.22,798,843 acquired from the Co-operative Wholesale Corporation were shown in the property, plants and equipment as at 31 December of the year under review but the relevant schedules were not submitted.	Comments had not been made.	Initial balance difference and assets acquired from the Co-operative Wholesale Corporation should be identified.
(c)	The cost of the four commercial buildings constructed in 2014 and 2015 in Kilinochchi, Weligama, Welisara and Kamburupitiya areas was Rs.384,921,862. Action had not been taken to account the valuation cost of the lands belonging to these buildings.	Comments had not been made.	Action should be taken to account for the cost of land.

(d)	The current account balance of the Commercial Bank in the credit debit account was Rs.11,788,037 which was not specified in the cash and cash equivalents.	Comments had not been made.	Bank balances should be identified separately.
(e)	The interest payable on long term loans from 2015 to 2019 was Rs.3,739,618,700 and that amount was accumulated for long term loans without being accounted for separately.	By the year 2019, the Treasury has agreed to repay the loan and the interest after converting the loan and interest into a term loan and so the loan interest was accrued for long-term loans without being accounted for separately.	The interest should be shown separately as it was not agreed by the Treasury by the date of 31 December 2019.
(f)	Rent advances of Rs.3,298,677paid to the outlets in the schedule to the rent advance account were unidentified from a period of 5 years and the action had not taken to identified this balance during the year under review.	These are the opening balances that were included when changing the system from the previous system to the current system.	When switching computer systems the balance should be transferred correctly and the reasons for such changes should be checked.
(g)	An identified balance of Rs.1,484,265 remained in the schedule to the rent deposit account in the financial statements from the period of 7 years and the action had not been taken to do necessary adjustments.	The reason for the unidentified balance of Rs.1,484,265 in the rent advance account the opening balances that were included when changing the system from the previous system to the current system.	When switching computer systems the balance should be transferred correctly and the reasons for such changes should be examined.

1.5.4 Unreconciled Control Accounts or Records

Item	As Per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
(a) Trade Payable Account	7,120,341,314	7,077,544,960	42,796,354	Transfer transactions directly from the Pronto system to the Credit Control Account without having to transact through creditors schedules. Currently	The reasons for the difference should be identified and resolved.

					the system blocks transaction entry in this way. We have obtained a report from E-wis institute regarding this difference and are taking the necessary steps to correct it.	
(b)	Balance payable to the Cooperative Wholesale Corporation	2,131,314,280	2,355,162,418	223,848,138	The balance has been reconciled with the Co-operative Wholesale Corporation and is being reconciled with the difference of Rs. 223,848,138 as per the new balance confirmation letter.	The difference needs to be identified and addressed.
(c)	Trade Payable Balance	443,387,441	465,930,051	22,542,610	Comments had not been made.	The reasons for the difference should be examined.
(d)	Trade Receivable Account	72,138,202	72,754,426	616,224	Comments had not been made.	Difference should be compared and corrections made.
(e)	Credit Control Memo Account	110,744,744	109,820,579	924,165	Comments had not been made.	Difference should be compared and corrections made.
(f)	Deposit and Advance – Under Remittance	17,881,160	16,237,380	1,343,779	Comments had not been made.	Difference should be compared and corrections made.
(g)	Rent Advance	209,351,445	212,107,445	2,756,000	A brief document related to the rent advance account has been submitted for audit and the detailed schedule has been resubmitted for audit and its initial balance has been stated correctly.	Action should be taken to submit the accurate information to the audit.

1.5.5 Unauthorized Transactions

	Description of unauthorized transaction	Management Comment	Recommendation
(a)	Receivable balance of Rs.2,270,000 due from the Ministry of Industry and Commerce from the year 2016 had been impaired during the year under review without confirmation and without the approval of the Board of directors.	No separate action was taken to approve these impairments as the financial statements were approved by the Board of Directors.	The approval of the Board of Directors must be obtained stating the reasons for the impairment.
(b)	The onion control account and the container deposit account of Rs.137,826,385 and Rs.19,507,254 respectively were impaired in the year 2015 and were deducted from the accounts without proper review and without a note to the financial statements. Treasury approval had not been obtained for that.	Actions have been made to re-submit the notes pertaining to the amended onion control account with the approval of the board of directors.	Accurate financial statements should be submitted to the Auditor General.
(c)	A portion of the daily income of sathosa outlets had not been remitted to the company's head office and had been expended by the outlets prior to 2016, amounting to Rs.74,643,497 shown in the deposits and advances. The amount was withheld by the 217 outlets ranged from Rs.2,000 to Rs.900,000. However, there is no written evidence to prove this amount and Rs.50,000,000 in 2016 and Rs.6,762,337 in 2017 was impaired.	Comments had not been made.	Outlets' money should be spent on the formal authority and it should be accounted for in the main ledger. The money retained in each year and the manner in which it was spent should be checked and properly accounted for.
(d)	Instead of the festival advance of Rs.10,000, Rs.20,000 had been paid in excess of that amount during the year under review and the over payment was Rs.20,657,500.	Comments had not been made.	Action should be taken in accordance with the circular.

1.5.6 Suspense Accounts

Item	Amount	Period in suspense	Management Comment	Recommendation
	Rs.			
Balance of Creditors	40,095,291	1 Year	Necessary steps are being taken to rectify the situation.	Differences between accounts and schedules should be identified and accounted for.

1.5.7 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
At the end of the year under review, the Company had accumulated deficit of Rs.17,884,556,952 as well as current liabilities over current assets of Rs.3,735,588,882 and as a result the Company's ability to meet and maintain its liabilities through assets and continue without the provision of Treasury provisions is in doubt. It was observed that the main reasons for this situation are the balance of trade payable and other debt balance outstanding as per the financial statements, Rs.9,248,426,171, recruitment for the post of deputy general manager on contract basis for a period of one and less than two years and remained 912 vacancies in senior, tertiary and secondary level posts.	Comments had not been made.	Do not borrow for working capital. The company should recruit the required staff on a permanent basis.

1.5.8 Documentary Evidences not made available for Audit

	Item	Amount Rs.	Evidence not Available	Management Comment	Recommendation
(a)	Cost of Property, Plant and Equipment, Cumulative Depreciation, Revaluation Gain, Asset Disposal	--	Revaluation Report	The report on property, plant and equipment revaluation done by Ernst & Young firm has been submitted. Schedules for revaluation of assets have already been submitted for audit.	The sum of the revaluation report prepared for the outlets wise is not the tally with the fixed asset register. The revaluation report should be prepared in such a way that the revaluation cost, depreciation and disposals of each asset can be identified.
(b)	Lands with outlets in Kilinochchi, Weligama, Welisara, Mannar and Kamburupitiya	--	Documents confirming deeds and valuation of lands.	Comments had not been made.	Ownership of land should be taken over and the valuation cost should be taken into account.

(c)	Building Rent	722,120,413	Procurement Files	Comments had not been made.	Relevant files should be submitted for audit.
(d)	Fixed Assets	312,590,835	Procurement Files	Comments had not been made.	Relevant files should be submitted for audit.
(e)	Trade Payable Accounts	4,684,028,439	Balance Confirmation	Comments had not been made.	Failure to confirm the balance should be followed up.
(a)	Credit/ Debit Control Account -Bank of Ceylon -Commercial Bank -Nations Trust Bank	 1,184,727 12,751,147 54,361	Bank Confirmations	Balance confirmation letters have been sent to the relevant banks of credit / debit control account.	Non-confirmation of balances should be followed up.
(b)	Trade Receivable Balances	359,189,493	Trade Debtors Confirmations	We have been given a sample of the trade receivable balances to be sent balance confirmation letters and action has been taken to send the letters accordingly.	Non-confirmation of balances should be followed up.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Cabinet Decision No. CP/11/135/540/017 dated 28 July 2011	According to the cabinet memorandum of "Improvement and Expansion of Retail outlets of Lanka Sathosa Limited" the shares were to be issued for the full amount, including the value of fixed assets belonging to the Co-operative Wholesale Corporation transferred to Lanka Sathosa Limited, arrears rent for the period up to 31 March 2011 and value of inventory, but this was not done.	Comments had not been made.	Action should be taken in accordance with the decision of the Cabinet.
(b)	Public Finance Circular, No. 02/2016, dated 12	Although the approval of the Board of Directors in accordance with the circular regarding damaged stocks	Comments had not been made.	Action should be complied with the circular.

	February 2016	deduction should have been obtained by the company , no such approval was obtained. There was no proper mechanism to distinguish between the surplus and the deficit balances and the loss due to deficit balances had not been recovered from the responsible officials.		
(c)	Public Enterprise Circular, No. PED 12, dated 02 June 2003			
	(i) Section 6.5	Although the financial statements should be submitted to the Auditor General within 60 days after the end of the financial year, the financial statements for the year 2019 were submitted for audit on 19 July 2021, one year and six months later. Further, along with the annual financial statements, the draft annual report for the year should have been submitted for audit, but the report had not been submitted.	Comments had not been made.	Action should be complied with the circular.
	(ii) Section 9.7	Without the approval of the Treasury, with the approval of the Board of Directors, the performance allowance paid to the CEO and the seven Deputy General Managers Rs.75,000 each was Rs.4,350,000. [	Comments had not been made.	Action should be complied with the circular.
(d)	Public Enterprise Circular, No. No. 1/2015, dated 25 May 2015	Although the officers who are in HMI-1 category or higher level and entitled to use the official vehicles for his official and personal use can be availed an official vehicle or monthly transport allowance, contrary to this and without approval of the Treasury transport allowance of Rs.12,500 per month had been paid to the officers who are not entitled to use the official vehicles. A transportation allowance had been paid to 17 officers in 2018 was Rs.1,885,833 and in the year under review was Rs.1,750,000.	Comments had not been made.	Action should be complied with the circular.

(e)	Public Enterprise Circular, No. 03/2018, dated 07 December 2018	Although the amount to be paid for employees of the company as bonus was Rs.3,000, without treasury approval a sum of Rs.25,000 each had been paid. Although the annual financial statements should have been submitted to the Auditor General in accordance with paragraph 6.5 of Public Enterprise Circular, No. PED 12, dated 02 June 2003 and, despite the financial statements was submitted delaying in one year and six months, contrary to the circular the total amount of bonus paid was Rs.74,698,075.	Comments had not been made.	Action should be complied with the circular.
(f)	Management Service Circular, No. 05/2017, dated 25 October 2017	The overpayment was Rs.630,000 exceeding the professional allowance payable to senior level officers in state owned companies.	Comments had not been made.	Action should be complied with the circular.
(g)	Letter of the Director General of Management Services no. DMS/1741 of 16 May 2017	Although The monthly allowance to be paid to the chief executive officer and deputy general managers of Rs.95,000 and Rs.90,000 respectively had been approved by the Department of Management Service, with the approval of the board of directors a monthly allowance of Rs.250,000 paid to the chief executive officer and without the board of directors a monthly allowance of Rs.150,000 paid to the deputy general managers. Accordingly, without the approval of treasury in 2018 the overpayment to 07 officers was Rs.5,100,000 and in 2019 the overpayment to 09 officers was Rs.4,505,163.	Comments had not been made.	Action should be complied with the circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.3,158,544,037 and the corresponding loss in the preceding year amounted to Rs.2,888,463,273. Therefore an deterioration amounting to Rs.270,080,764 of the financial result was observed. The reasons for the deterioration are mainly decrease in revenue of Rs.3,201,032,039 and an increase in financial expenses of Rs.425,735,386.

2.2 Trend Analysis of major Income and Expenditure items

Cost of sales had declined by Rs.2,814,603,192 or 11 percent for the year under review over the revious year. and the sales revenue had declined by Rs.3,201,032,039 or 12.The reduction of 14 percent in purchases in the year under review had a major impact on the reduction in sales costs. As a result, gross profit had declined by 11.4 percent. Since the stock losses of Rs.193,280,144 had been adjusted to the gross profit, gross profit had declined by such amount. Although sales expenses and administration expenses decreased by 3 percent and 9 percent respectively, financial expense increased by 41 percent. This was cause to a 9 percent in loss for the year.

2.3 Ratio Analysis

The ratio analysis with the company for the last two years and the year under review is as follows.

Year	2017	2018	2019
Gross Profit Ratio	9%	12%	11%
Net Profit Ratio	(9%)	(10%)	(12%)
Current Assets Ratio	1:2.5	1:1.388	1:1.63
Quick Ratio	1:1.66	1:3.58	1:2.58
Debt Ratio	53.22%	2328.44%	1373.39%

According to the above ratio analysis, net loss was reported in previous years and in the year under review and during the period 2017-2019, the net loss ratio increased from 9 percent to 12 percent. As current liabilities have reported over current assets in recent years, the current assets ratio and quick ratio have been weaken. Therefore, loans had been taken for working capital requirements and the company’s debt ratio increased from 53.22 percent in 2016 to 2328.44 percent in 2018. The ratio had fallen to 1373.39 percent in 2019, but the company had failed to maintain less than 100 percent. This situation was caused by reporting of continuous net loss, non-payment of loans taken in previous years, borrowing to repay loans and accumulation of loan interest on loan.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Balance of Rs.2,036,750 before 2018 was in the festival advance balance of Rs.5,801,312 as at 31 December for the year under review and the balance was not recovered by the date of 02 December 2021 and a sum of Rs.446,000 of this balance had been impaired.	Comments had not been made.	Action should be taken to recover the arrears in advance.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
A sum of Rs.2,708,780 had been paid as rent advance without entering into a formal rent agreement for 10 buildings owned by the government institute obtained on rent basis. Although a sum of Rs.7,745,000 had been paid to obtain three buildings on rent basis for the outlets in the year under review, two of the relevant outlets had been opened late and one outlets had not been opened by the date of this report.	Comments had not been made.	When obtaining the buildings on rent, formal rent agreement should be entered into and action should be taken to utilize the leased buildings.

3.3 Procurement Management

	Audit Issue	Management Comment	Recommendation
(a)	The company had paid an advance of Rs.14,108,445 which is 20 percent of total contract value to Sathosa Construction and Engineering Pvt. Ltd. in 2017 for the construction of a commercial building in the Mannar area and an advance security had not been obtained as per section 5.4.4(1) of the procurement guidelines. The contract company had repaid only Rs.2,051,486 as the constructions had been halted due to a court action and the remaining amount Rs.12,056,960 had been detained by the contractor without furnishing the certificate of wok completion in terms of para 8.12.2 (a) and (b) of the procurement guidelines and written confirmation of expenses. This amount had been impaired during the year under review without the approval of the board of directors. Although the company had documents confirming the ownership of the 20 perches of land, its valuation amount had not been taken into account.	The letter issued by the Mannar divisional secretariat confirming the ownership of the 20 perch land belong to the building to be constructed in the Mannar area and the court order to stop the construction attached herewith.	Action should be complied with the procurement guidelines.
(b)	Without identifying the requirement of procurement items, 12,800 plastic packaging crates had been purchased for Rs.24,382,509 in 2017 contrary to the para 2.3.2 (c), 2.7.5, 2.8.1 (c), 2.8.1 (d), 3.2, 3.4, 4.2.1, 4.2.2, 4.2.3, 4.3.1 (a), 4.3.2, 5.1.1 (a), 5.1.1 (b), 6.3.3 (a), 6.3.6, 7.1.1, 7.11.1, 8.9.1 (b) and 1975 crates amounting to Rs.3,761,348 were idle as at 31 December for the year under review.	Comments had not been made.	Purchasing should be done in accordance with the provisions of the procurement guidelines and action should be taken to identify the requirement of the purchasing and utilize.

3.4 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
(a) Without a procurement process and on the recommendation of the deputy general manager (finance), the approval was given by the board of directors on 16 October 2017 to select a private company to revalue the property, plant and equipment of the company during the year under review and the price offered by the audit firm was Rs.3,800,000. Although the amount approve by the board of directors was Rs.4,200,000, the decision of the board of directors did not state the reasons for approving the relevant amount. Further, although the lands and building as per the fixed assets register had not been revalued, contract value had not been revised. It was observed that as a sum of Rs.5,133,896 had been paid to the audit firm as at 12 March 2020, a sum of Rs.1,333,896 had been paid over the agreed amount. It also took two years to complete the revaluation task which was to be completed in three months.	The proper procurement procedure was followed in selecting the institution for the revaluation of property, plant and equipment and all the relevant documents were submitted for audit. As new outlets were added for the revaluation of property, plant and equipment, the agreed amount and duration were revised and the approval of the board of directors was obtained and the files have already been submitted for audit.	According to the documents submitted, there was no written evidence that the procurement procedure was followed. The board of directors should pay attention to this. The board of directors should not approve the recommendation of the deputy general manger (finance) and should consider the decision of the procurement committee.
(b) Although no written agreement was entered into with the private audit firm and it was agreed to update the fixed assets register as per the acceptance letter of the private audit firm, the fixed assets had not been updated with the opening balance, purchasing of assets, disposal of assets, revaluations and depreciation for the year. Further, the motor vehicles of Rs.18,821,440, communication equipment of Rs.3,642,602 and land had not been included in the fixed assets register.	We have entered into a written agreement with the private audit firm and the relevant documents have already been submitted for audit.	There was no written agreement between two parties. Action should be complied with the procurement guidelines.