Lanka Sathosa Limited - 2020

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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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 2020, 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

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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Com	Recommendation
(a)	According to the Sri Lanka Accounting Standards No.01, if changes and reclassifications of the previous year's information related to the items shown in the financial statements for the year under review, it is required to be disclosed as per paragraph 41 of the standard, but it has not been disclosed even though there has been a change in classification in the presentation of comparative information.	In preparing the financial statements of the year 2021, if it is necessary to change and reclassify the information of the previous year, it will be taken action in accordance with Sri Lanka Accounting Standard 1.	As agreed upon, action should be taken in according with the Standard.
(b)	Although inventory should be measured at the lower of cost and net realizable value when valuing the stock according to the Sri Lanka Accounting Standards 2,	In practice the net realizable value of the sock is not determined due to the nature of the entity. In the year 2021,	Action should be taken in accordance with the Standard.

	inventory had been accounted at a cost by the company. Further, the age analysis of these stocks was not submitted to the audit. In warehouses, goods unfit for human consumption, expired goods, damaged goods and goods shortage were included in the inventory of finished goods and those goods with zero value were accounted for at the current trading price. The company had not taken steps to remove the stock from an annual physical stock counting.	stocks have been physically verified in the process of all the outlets computerization.	
(c)	The total of fixed assets purchases is Rs.98,501,656, fixed asset depreciation is Rs.479,399,081, the loan interest payment for the year under review is Rs.569,128,891, the total loan installment payments is Rs.27,466,343, respectively shown in the cash flow statements is Rs.57,125,518, Rs.438,022,943, Rs.438,539,397 and Rs.90,492,480. Furthermore, the statement of cash flows included in the financial statements for the year under review was not prepared in accordance with Sri Lanka Accounting Standard 7 due to the fixed deposit interest receivable as on 31 December 2020 amounting to Rs.49,095,302 has been shown under cash and cash equivalents in the cash flow statement, government grants receivable of Rs.34,959,767 related to the year 2019, which had been adjusted to the retained earnings account as non-receipt of government grants.	The statement of cash flows of the year 2021 will be prepared correctly taking into accounts the facts indicated in the audit.	Action should be taken in accordance with the Standard.
(d)	Although the effective life of property, plant and equipment, depreciation methods, etc. should be reviewed annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No.16, company had not done so. As a result, the net book value is zero as at 31 December of the year under review currently in use which is not revalued property, plant and equipment cost was Rs.227,380,036.	Since it was the first time a fixed assets revaluation was carried out, erroneous deficiencies were made. It is expected to correct them and conduct revaluation of fixed assets in the future.	Action should be taken in accordance with the Standard.

(e)	From the year 2010 to 2019, the amount of balance due from external parties of the company was impaired during the period of 2015 – 2018 for Rs.604,664,264 and was not reviewed annually in accordance with the section 114 of Sri Lanka Accounting Standards No.36.	In connection with the recovery of the advance amount paid to one institution, arrangements are being made to recover it in the year 2021.	The provision for impairment should be reviewed annually as per the standard.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the revaluation conducted in the year 2019, 2371 items of property, plant and equipment were reported to exist, but they were not accounted for due to the fact that the revaluation value was not recognized. Rs.5,133,896 had been paid as valuation fees without inquiring the valuer concerned about this.	The Fixed assets purchased during the course of the revaluation in 2019 are listed as revaluation value unidentified assets.	It was observed that the fixed assets purchased in the year 2019 were not. Revaluation value should be identified and accounted for.
(b)	The effective life of the assets which were revalued in the year 2019, had not been reviewed. Furthermore, the depreciation expense of Rs.186,285,902 had been accounted as at 31 December 2020 less than the depreciation expense calculated by the auditor.	The information provided by the audit is not sufficient to comment and comments can be presented after receiving the detailed information regarding calculation as per the audit.	Accumulated depreciation should be corrected as detailed information of audit calculations is presented.
(c)	The difference between the opening balance of property, plant and equipment accounts and the opening balance of the fixed assets register was Rs.675,434,885. In this difference, there was a balance of Rs.529,010,712 which was present in the ledger from the year 2013 but was not recognized in the fixed assets register. Motor vehicles amounting to Rs.18,821,440, communication equipment amounting to Rs.3,642,602 and the assets taken over from the Corporative Wholesale Corporation amounting to Rs.22,798,843 had not been included in the fixed assets register and the related schedules had not been submitted.	Opening balances which have not separate detailed information, were entered the system since the system changed from the previous computer system to the current computer system in use. As of now all these assets have been depreciated so there is no impact on the financial statements. There is no detailed information of the assets taken over from the Cooperative Wholesale Corporation to include in the fixed assets register.	There is an impact on the financial statements as assets whose value is nil are in use. Therefore, the assets should be revalued according to the standard and the assets should be physically checked and documented.

(d)	Although the removal of assets amounted to Rs.6,104,439 according to the note.12 for property, plant and equipment in the financial statements, it was not a true removal but the wrong corrections made in recording the cost of the assets. Although these correction should be made from the property, plant and equipment accounts, it had been shown in the note as disposal of assets.	Necessary arrangements have been made to update the fixed assets register correctly in 2021	Action should be taken to accurate presentation of financial statements.
(e)	As on December 31 of the year under review, the amortization provision for intangible assets amounting to Rs.58,881,068 had been under-accounted by Rs.940,589, thus the loss for the year had been understated and the cost of intangible assets was overstated by the same amount.	Comments had not been made.	Amortization should be correctly accounted.
(f)	Due to accounting of amortization deferred income amounting to Rs.9,908,789 in the year under review relevant for the year 2019 for the developing and implementing Enterprise Resource Planning (ERP) Project, previous year profit had been under stated and profit for the year had been over stated by that amount.	Comments had not been made.	Deferred income should be accounted correctly for relevant period.
(g)	In the year under review, Rs.2,655,196 had been recovered from the insurance cover and Rs.4,618,885 had been recovered from the employee for the stock damage amounting to Rs.52,962,079 and the net loss of Rs.45,687,998 had not been recognized in the profit and loss account.	Comments had not been made.	Stock damage cost, its coverage and net stock loss should be correctly accounted for.

1.5.4 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Amount payable to Co-operative Wholesale Corporation	1,924,384,456	2,224,015,697	299,631,241	In the present balance adjustments have been made with the Co-operative Wholesale Corporation and the reasons for this difference can be the reduction of returns, changes in transport rates, weighbridge charges and lorry shortage.	Action should be taken to settle the difference.

1.5.5 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
At the end of the year under review, the Company had deficit of Rs.1,387,666,643 as well as current liabilities over current assets of Rs.5,179,539,408 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.23,963,605,034, recruitment for the post of deputy general manager on contract basis for a period of one and less than two years and remained 812 vacancies in senior, tertiary and secondary level posts. In the year under review, according to the cabinet decision, the treasury had only provided provision for only the annual loan installment and interest of the loan amount	Comments had not been made.	The working capital should be managed and required management staff should be recruited on a permanent basis.

obtained for the import of rice, and since the provision had not been made to purchase the assets, provision of treasury was also uncertain. Action had not been disclosed in the financial statements in regarding the continuation of the operations of the company.		

1.5.6 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Stock damages	52,962,079	Stock verification sheets and ledger accounts	Comments had not been made.	Stock verification should be carried out to identify damaged stock.
(b) Prepaid electricity and water charges	2,566,613	Bills and payment vouchers	The comparison related to prepaid electricity and water bills is currently being processed	Bills should be kept to prove the related expenses.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	In relation to the trade receivables balance of Rs.816,312,796 shown in the financial statements, Balance confirmation letters had been called from the 35 debtors, of which only one debtor had responded. The balance confirmed by the debtor was Rs.97,565,593 and according to the company's accounts Rs.100,408,798 the difference was Rs.2,843,205.	The debtors balance confirmation letters were sent and the responded letters have been submitted for audit. The company is not responsible for debtors who did not respond.	Follow up should be carried out on non confirmation of debtor balances.
(b)	Due to COVID 19, the sale and distribution of goods had been done through internet and other agencies and at the time o handling over the goods for distribution, it had been accounted as credit sales. Since the debtors had been settled more than the debtor balance, it was observed that sales	Settlement of outstanding funds account has been completed by year 2021.	Action should be taken to corrected.

related to that amount had not been recorded. The company had not taken steps to reveal the reasons for the over amount of Rs.781,728.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	The balance in the schedule to the trade payable accounts was Rs.9,268,228,953 and the balance mentioned in the financial statements was Rs.9,230,562,595, the difference was Rs.37,666,358. Since the total trade payable account balance of Rs.9,230,562,595 as at end of the day of the year under review included in the category of more than 180 days as per creditors' age analysis, the age analysis of creditors could not be correctly identified in the audit. Balance confirmation had been called from 27 creditors amounting to Rs.3,700,111,704 and non of the creditors had not responded.	The reason for the difference was that transaction were recorded directly to the creditors control account from the 'Pronto' system instead through the creditors' schedule. Currently, the system has blocked transitions in this way. Necessary steps are being taken to correct this difference. Responses to the creditor balance confirmation letters have been submitted for audit.	Action should be taken to do correctly when transferring between system and follow up on non-confirming of creditor balances.
(b)	A provision of Rs.12,489,577 had been made for payment on invoices submitted by suppliers without written evidence for purchasing of goods in the years 2016 and 2017 and a provision of Rs.25,000,000 had been made for three suppliers on an estimate. The total provision amount of Rs.37,489,577 had been creditors to the supplier and debited to the cost of sales in the year 2019. In the year under review, this double entry had been reversed from the accounts and although the adjustment should be made to the accumulated profit due to adjustment was made to the cost of sales, loss for the year decreased by that amount. Since the goods had been purchased and paid subsequently to the suppliers who had been made the provision, an investigation had not been carried out regarding the submission of invoices and omission of from the	Comments had not been made.	Payment shall be made only to the creditors identified on the purchase order, goods receiving notes and invoices.

accounts. It was further observed that there are weakness and frauds in the process from the purchase of goods to payment to suppliers by allocating estimate provision of Rs.25,000,000 on the assumption of receiving invoices without issuing purchase orders and goods receiving notes.		

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
Action had not been taken to settled the unrecognized debit balances of Rs.3,498,678 and Rs.1,484,265 in the rent advance account and rent deposit account respectively prevailed from the year 2013, had not been. In the balance of the advance account as on December 31 of the year under review, there is an unrecognized credit balance of Rs.6,057,734 in relation to 59 outlets dating back to the year 2015 and the company had not taken steps to identify and settle the said balance by June 15, 2022.	Opening balances without detailed information entered during the conversion from the previous accounting system to the current accounting system.	Transferring between systems should be done correctly and the company should take the action to identify and settle the balance.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 8 of the Employees' Provident Fund Act No. 15 of 1958 and Section 15 of the Employees' Trust Fund Act No. 46 of 1980	According to the respective act, 20 percent of the employee's contribution and the employer's contribution from the salary of each employee must be contributed to the employee provident fund and 3 percent of the company's contribution to the employees' trust fund. How ever, contributions had not been obtained from the Employees' Provident Fund and the Employees' Trust Fund for the casual employees employed by the company. According to the net salary of the casual employees shown in the financial statements of the year under review, Rs.55,821,044 had not been contributed to the Employees' Provident Fund and Rs.8,373,157 to the Employees' Trust Fund. It was observed that due to non-contribution to the fund, surcharges will be levied against the company by those funds and the company will have to bear the 20 percent contribution that has not been paid so far without collecting the contribution from the employee.	Agreement has been entered into with the supplier with the responsibility subject to the supplier to credit the contribution to the EPF fund and the ETF fund for employees employed by an external supplier. Wages are paid to the workers on a daily basis and in many cases the same worker is not employed on a daily basis. Further, the allowances paid to the trainees assigned to each division of the head office for training periods of 6-12 months, have been included in this category.	It should be confirmed that the employees from other firms contributed to the funds and since the act states that if the salary has been paid even for one day, the contribution should be charged, action should be taken according to the act.
(b)	Management Service Circular, No. 05/2017, dated 25 October 2017	Although the monthly professional allowance paid to senior level officials of government-owned companies should be paid based on the	A monthly allowance of Rs.10,000 has been approved for those who have fulfilled all professional qualifications	Approval should be obtained for all allowance from the Department of Management Service

		service period, contrary to this 6 officials were overpaid Rs.504,000 in the year 2020 and Rs.589,000 to 9 officials in the year 2021.	by Board of Directors Meeting No. 44 – 6.1 held on 27 August 2014.	as per the circular.
(c)	Public Enterprise Circular, No.03/2018, dated 07 December 2018	Although the annual bonus to be paid to the company's staff is Rs.3,000, since the company had paid Rs.22,000 each contrary to the circular, the over paid bonus was Rs.63,405,850 to 3444 employees and the treasury approval had not been obtained for this.	The Board of Directors has approved the bonus for the year 2020.	Overpaid allowance should be approved by the Management Services Department.
(d)	Letter of the Management Services no. DMS/1741 of 16 May 2017	The post of Chief Executive Officer of the company is currently a contract recruitment position and it has not been decided to recruit on a permanent basis. The scheme of recruitment for this post had not been approved and the salary and allowances were approved by the Management Services Department and Cabinet decisions on several occasions. The company had not taken action to obtain approval for a specific salary based on the duties and job description of the position. Contrary to the circular, board of directors of the company had approved various salaries and allowances and accordingly, the salaries and allowances paid in the years 2019,2020 and 2021 without formal approval amounted to Rs.6,546,667.	The Cabinet approval has been obtained for the payment of a monthly salary of Rs.390,000 for the post of Chief Executive Officer on contract basis for a period of one year in the year 2019. The salary of the Chief Executive Officer position has been paid from the year 2020 based on the Rs.390,000 salary approved by the Cabinet approval. Subsequently, the approved monthly salary for the post of Chief Executive Officer has been approved as Rs.399,000 as per Board of Directors Meeting No. 90. Based on the risks and responsibilities associated with the position of Chief Executive Officer, it has been observed that the salary paid to the officers who held the position of Chief Executive Officer previously is not sufficient to retain in this position. The director general of Management Services	As per the circular letter, the scheme of recruitment including with all salaries and allowances should be approved by the Department of Management Services.

Department has stated that DMS/1747/Vol-I letter dated June 01, 2021 states that if Lanka Sathosa Limited agrees with the management service salary codes, it is possible to approve the scheme of recruitment for the posts of General Manager and Deputy General Manager. we hope to discuss this further with the minister in charge and the secretary to the ministry and reach a decision in the future.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.1,387,666,643 and the corresponding loss in the preceding year amounted to Rs.3,158,544,037. Therefore an improvement amounting to Rs.1,771,177,394 of the financial result was observed. The reasons for the improvement are increase of income and other income in Rs.9,712,379,878, no provision for impairment and decrease of interest on loan by Rs.961,037,335.

2.2 Ratio Analysis

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

Year	2018	2019	2020
Gross Profit Ratio	12%	11%	10.6%
Net Profit Ratio	(10%)	(12%)	(3.9%)
Current Assets Ratio	1:1.388	1:1.63	1:0.6
Quick Ratio	1:3.58	1:2.58	1:0.23
Debt Ratio	2328.44%	1373.39%	1600.17%

According to the above ratio analysis, net loss was reported in previous years and in the year under review and during the period 2018-2019, the net loss ratio increased from 10 percent to 12 percent and it had been decreased by 3.9 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 been fallen to 1373.39 percent in 2019, but it had been increased in the year under review. However company had failed to maintain less than 100 percent.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
6 pallet jack carts had been rented for 2 months only at a rate of Rs.7,500 each without any procurement process in the year 2019 in order to increase the stocks and the sales of the outlets targeting the Sinhala and Hindu New Year festival 2019. Since the price of this equipment was Rs.55,000, stating that the purchase was not economical it had been decided to rent it and agreement had not been entered into with the company. However, 59 equipment had been rented without approval for the operation of 3 warehouses and the amount spent was Rs.9,230,752 as at 25 June 2022. The company had lost the purchase of 165 equipment from the total rental value due to not taking into account the fact of economic recovery.	As there is no properly updated file related to procurement of Pallet Jack Cart by Noble Lanka (Pvt) Ltd, it is not possible to say definitively about the procurement process or the agreements. It was stated that pallet jack carts were obtained for these warehouses on rental basis instead of purchase as per the decisions taken by the top management on various occasions.	Economic efficiency should be taken into consideration.

3.2 Identified Losses

	Audit Issue	Management Comment	Recommendation
(a)	Although according to Section 1.3.2 of the Government Procurement Guidelines 2006, all procurements should be operated as per procurement guidelines regardless of the source of funding, procurement process for purchase of the company's fixed assets had been awarded to the CWE Construction Ltd, a subsidiary company of the Cooperative Wholesale Corporation. An administration fee of 3 percent of the cost of the item had been paid in addition to the cost of the procurement item provided by that company. In the years 2019 and 2020, the total amount of fixed assets purchased through that company was Rs.283,172,592 and amount of Rs.8,495,178 had been paid as administrative fees. The company had to incur additional costs due to not following the procurement process.	Comments had not been made.	Action should be taken as per Procurement guidelines.
(b)	Lanka Sathosa Limited operates the liquor outlets belonging to the Cooperative Wholesale Corporation, and for that, the company pays	Since CWE Retail (Pvt) Ltd is no longer running an organization called	Arrangements should be made to acquire liquor outlets licenses

	annual royalty fees and an expense for the renewal of the liquor outlets license to the Cooperative Wholesale Corporation without any agreement between the two parties. Action has been taken to obtain the ownership of these licenses since 2016 but have not been taken over by 25 June 2022. An additional expenditure of Rs.11,320,056 had been incurred in the year under review due to this non acquisition.	CWE Retail (Pvt) Ltd, we were able to take over the liquor outlets licenses and royalty fees are paid for liquor licenses held by the Cooperative Wholesale Corporation.	in the name of the company.
(c)	The Ministry of Finance had compensated the company for the loss calculated on the cost of Rs.705,620,093 due to the price reduction for the two food items, samon and dhal, between 18 March 2020 and 29 April 2020 in order to provide relief to the consumers according to the decisions of the Cabinet. The cost between the purchase price and the purchase cost calculated by the company was Rs.71,987,819, of which Rs.42,000,000 was approved by the Cabinet decision No.21/0563/313/016 and dated 20 April 2021. The company had requested the Ministry of Finance to reimburse this amount, but it had not been received by 27 June 2022. Accordingly, the total amount of Rs.71,987,819 was a loss incurred by the company.	Comments had not been made.	Actions should be taken to compensate for the loss.
(d)	The tax on sugar existed until then had been reduced to 25 cents from 14 October 2020 by the special gazette No. **2197/12** dated 13 October **2020** and a control price on sugar had been introduced by the special gazette No. **2201/8** dated 10 November **2020**. After deducting the tax and fixing the control price, the company's purchase price was Rs.80 and the selling price was Rs.85. The stock of sugar held on 14 October **2020** by the company was **919**,**409** kg and the loss of Rs.**37**,**159**,**974** calculated on that was compensated by the Ministry of Finance. Although the tax was reduced to **25** cents, the company had procured and purchased at a price higher than Rs.**80**, so the loss incurred by the company was Rs.**42**,**814**,**915** as on 08 February **2021**, the day when the control price was removed.	Comments had not been made.	Proper procurement process should be followed.

3.3 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The company had paid Rs.883,683 to the employee in the case filed by the employee considering the transfer as a senior sales assistant in an informal manner and not allowing him to report to the work, as a suspension of service and he was reinstated at the previous workplace without any severance. Accordingly, due to the failure of the company's management decisions to be taken properly, the amount of compensation and legal fees paid by the company to the employee amounting to Rs.1,183,683 should be recovered from the responsible officials, but it was not recovered.	The verdict was given in 2020, and the incident related to the case was happened in 2016. By the time of the announcement of the judgment, the high officials who worked in the human resource division and the relevant regional manager were not employed during the period related to the incident, so it was not possible to recovered the relevant money.	An internal investigation should be conducted in this regard.
(b)	According to the decision of the case filed by the officer who held the position of Director (Human Resources) in the Labor Court on **15** June **2017** Regarding the dismissal of the said officer on the basis of failure to prove his qualifications, it was decided that the public administration circulars and establishment code are not applicable and the decision of the Board of Directors should be followed. even though, the board of directors did not pay attention before or after this court decision to the legal background required for the company's administrative activities and had not take the necessary action for it. Dismissal of the officer, non-approval of the scheme of recruitment by the board of directors, non-functioning of the interview panel and non-updated personal files were the reasons which affected the judgment against the company and accordingly the sum of compensation and legal fees had to be paid. Rs.**3**,**302**,**480** should be recovered from the relevant responsible parties, but it was not recovered.	The Director (Human Resource) related to this case was recruited in the year 2006 and Lanka Sathosa Limited was recruited to the top management. The interview related to this recruitment has been conducted by a committee led by the line ministry secretary, and since the Human Resources Division does not have any document related to that recruitment, it is not possible to disclose information about the relevant responsible officers.	An internal investigation should be conducted in this regard.

3.4 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the company's building rent guidelines, advance should not be paid for empty land without buildings on the assumption of opening shops in the future, but according to the 29 agreements entered into as at 31 December 2020, an amount of Rs.34,234,996 had been paid for building constructions as 1 ½ years advance money without obtaining an assessment report. Legal action had been taken against 18 of the 29 building owners who had not constructed to be suitable for use and handed over to the company to recover an amount of Rs.27,435,000. However, from this no amount had been recovered by 15 June 2022.	Comments had not been made.	The Building renting guidelines should be followed.
(b)	An amount of Rs.2,708,780 had been paid as rent deposit without a formal rent agreement for 10 buildings belonging to the government institutions acquired on rent basis. An amount of Rs.81,652,836 had been paid as advance rent to 52 outlets before reaching the agreements and opening the outlets, out of which 17 shops After the date of entering into the agreement and 35 shops after paying the advance money had been opened 4 years delay. Due to the delay in starting the operations of those outlets, it was observed that the money of the company remained with the external parties for a period of 2 months to 4 years without earning income for the company as at 31 December of the year under review.	Comments had not been made.	The Building renting guidelines should be followed.
(c)	An agreement had been entered into with a private company on 16 November 2016 for a contract amount of Rs.152,902,347 to install security camera systems for 317 outlets in the company's outlet network. According to the contract with this company, the warranty period was 2 years and after its completion, necessary steps had not been taken for maintenance work. There was no system for checking and storing the footage of this camera system. 445 outlets were operational but only 313 outlets had installed security camera systems as at 25 June 2022. Only 70 outlets were operated as at 18 April 2022, the objectives of installing the security camera system had not been met.	Comments had not been made.	Action should be taken to install security camera systems to fulfill its objectives.

3.5 Procurement Management

	Audit Issue	Management Comment	Recommendation
(a)	Although an annual procurement plan should be prepared as per the National Budget Circular No. 128 dated 24 March 2006, the company had not prepared an annual procurement plan.	A procurement plan for the year 2020 has been prepared and a copy of the same has been submitted herewith.	Annual procurement plan should be prepared as per circular.
(b)	According to paragraph 4.2.1 (b) of the procurement guidelines, a master procurement plan should be prepared for the expected procurement activities for a period of at least 3 years, but the company had prepared the procurement plan for only one year. Further, no procurement schedule was prepared as per 4.2.2 of Procurement Guidelines	Approval of the technical evaluation committee has been obtained prior to calling for bids for the specifications and bid documents relating to the procurements currently called under the national competitive bidding system.	Action should be taken with according to the procurement guidelines.
(c)	Preparation of draft bid documents including relevant specifications, review and approval of those documents had not been done by the technical evaluation committee as per procurement guidelines 2.3.2 (c). The technical evaluation committee had not followed the guidelines 2.6.1 (a) and (c) of the Procurement Guidelines. Although the tasks to be done jointly by the procurement committee and technical evaluation committee were mentioned in the procurement guidelines 2.11.1, they had not taken action accordingly.	Approval has been obtained from the technical evaluation committee prior to calling for bids for the specifications and bid documents relating to the procurements currently called under the national competitive bidding system.	The audit inquiries have shown that such approval had not been obtained and should be dealt with according to the procurement guidelines.
(d)	Rs.1,080,300 had been spent for the purchase of computer equipment and accessories for the Boossa warehouse of Lanka Sathosa Limited in the year 2020, The procurement plan did not include computers and accessories that were not required to be purchased in 2020. These assets were purchased in contrary to the procurement guidelines 2.5.1(b), (c), (d), 4.3.1, 4.3.2, 8.9.1 (b) and 8.12.3.	There was no plan to open the Boussa warehouse at the beginning of 2020 and since the space in the Orugudawatta warehouse was not sufficient to continue the distribution process without shortages throughout the island, a warehouse has been acquired in the Boussa warehouse complex. Action will be taken to maintain up-to-date procurement files.	Action should be taken with according to the procurement guidelines.

(e) A sum of Rs.1,002,000 had been spent for pylon cladding which was purchased for Jaela's new outlet contrary to procurement guidelines 4.2.3, 5.4.1, 5.4.10, 8.9.1, 8.12.2 and outside the procurement plan of the year 2020, and a sum Rs.4,306,855 had been spent on purchase of air conditioners contrary to procurement guidelines 4.2.3, 5.4.10, 7.8 and 8.7.1.	It was informed that these procurements were called under the market pricing method.	Action should be taken with according to the procurement guidelines.
(f) In the purchase of 100 cash check tables worth Rs.3,952,000, two bidders who had not completed the basic qualifications had been rejected and the procurement committee had decided to award the procurement to one of them without the recommendation of the technical evaluation committee. Accordingly, the procurement committee had awarded the procurement by acting contrary the procurement procedure.	The Departmental Procurement Committee has approved the issuance of orders after supplier sample testing. Subject to the instructions, a sample inspection of the supplier was also conducted and a technical committee evaluation report was given with recommendations.	Action should be taken with according to the procurement guidelines.

3.6 Human Resources Management

Audit Issue	Management Comment	Recommendation
556 posts i.e. an accountant, a driver and 554 sales assistant posts were recruited in excess of the approved staff of the company and no approval was obtained from the Department of Management Services for that. 4 new positions were created outside of the cadre approved by the Department of Management Services and 10 employees were recruited for those positions. 184 employees for 09 posts had been recruited without approved recruitment procedure from the Department of Management Services.	The vacancy of the approved senior accountant post has been given to an officer working in the post of accountant and the officer has been recruited to the post of accountant for the purpose of promotion to that post. The approval has been sought from the Department of Management Services for driver positions and sales assistant positions in the 2021 staff restructuring.	The approved scheme of recruitment should be followed and approval should be obtained when making amendments.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Although annual financial statements should be submitted to the Auditor General within 60 days of the end of the financial year according to paragraph 6.5 of the public enterprise circular No. PED 12 dated 02 June 2003, the company's financial statements had been submitted to the Auditor General on 23 March 2022, 2 years later. Further, the draft annual report of the annual report for the year should also be submitted to the audit along with the financial statements, but the company had not submitted that report.	Due to the fact that only 117 out of the total network of outlets (420) owned by Lanka Sathosa Company by the year 2020 were computerized, the re-checking of all processes related to stock and sales in manual outlets by the officers of the head office caused the delay in the preparation of financial statements. Since all the stores are now computerized, the previous delays can be minimized.	Arrangements should be made to submit the financial statements within the relevant period as per the circular.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
The company had prepared a corporate plan for the period 2020-2023 and it had not been prepared including the matters stated in the State Finance Circular No. 01/2014 dated 17 February 2014. Accordingly, a review of the operational results of the last three years, an action plan that clearly identified the responsibilities of the managers regarding the goals and objectives to be achieved in the year under review, and performance indicators were not included in this corporate plan.	In the company's corporate plan, which is based on retail trade, priority has been given to sales targets and the vision and mission have been clearly stated.	The goals needed to implement the vision and mission should be clearly identified and dealt with according to the circular.