Lanka Sathosa Limited - 2022

----

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Sathosa Limited ("Company") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 reported to Parliament, appear in this report.

I do not express an opinion on the financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in the paragraph 1.5 of this report.

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 disclaimer of 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 Auditors Responsibilities for the Audit of the 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 scepticism 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 Observation on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

	Non-Compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a)	According to paragraph 32 of Sri Lanka Accounting Standard 01, assets, liabilities, income and expenses should not be set off. But due to the fact that the company offset the credit balance of Rs.75,385,840 from the receivable balances and the debit balance of Rs.1,728,194 from the payable balances, the receivable and payable balances in the financial statements were underestimated from those values.	Due to the fact that the accounts of debtors have been transferred and settled through the settlement system related to debtor balances, there are credit balances in some debtor accounts as on 31.12.2022. The Unsettled Fund account shows the amount received as at 31.12.2022 without the party receiving the money being identified.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(b)	In accordance with paragraph 38 of Sri Lanka Accounting Standard 01, an entity shall present comparative information in respect of prior periods, except when permitted or otherwise required by the Standard. However, the company had presented information about stock losses under Note No. 5 in the financial statements of the year 2021, but in the year under review, the information about stock losses had not presented in the financial statements, so problems arose regarding the consistency of the financial statements. Furthermore, according to paragraph 34 of Sri Lanka Accounting Standard No. 02, all losses related to the period should be recognized as expenses in relation to the stock. Although stock shortages had been continuously recognized as expense in previous years, the stock shortages of Rs.342,327,235 identified during stock verification in the year under	After computerizing all the stores in the year 2021, a physical stock verification had been done in the year 2023 and the stock loss of nearly two years had been included in the stock loss on 31.12.2022. Also, on the approval of the Audit Committee and the Board of Directors, the recoverable portion of the stock loss in the year 2022 amounting to Rs.342,327,235 had been shown under other receivables as recoverable stock losses in the statement of financial position. In the year 2021, a recoverable balance for stock shortages had not been definitely recognized and stock shortages have been recognized as an expense.	-Do-

	review had been recorded under other receivables in the statement of financial position.		
(c)	According to Sri Lanka Accounting Standard 07, while preparing the cash flow statement, the correction of errors of previous periods should not be adjusted to the profit, but the correction of errors of previous periods amounting to Rs.13,513,020 had been added to the profit. Also, although the instalments paid for the leased assets for the year under review was Rs.21,459,517, it was shown as Rs.34,972,537 in the cash flow statement, so there was a difference of Rs.13,513,020.	In the year 2022 this adjustment had been adjusted to profit in the statement of change of equity. Therefore, it had been shown as an adjustment to profit when calculating the cash flow from operating activities in the statement of cash flow.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(d)	According to paragraph 42 of Sri Lanka Accounting Standard 08, material prior period errors should be corrected retrospectively in the financial statements of the year under review. However, (i) The generators purchased in the years 2017 and 2018 with a value of Rs.27,660,154 had not been accounted in those years but had been accounted in the year under review, and from the year 2018 to the year 2021, the depreciated value of those assets, which is Rs.14,755,413 had not been accounted.	Rs.10.4 million had been paid to that company in the year 2023 as this machine is owned by UKAAYE but has been acquired through CWE Engineering & Construction. Also, the asset system was created in the year 2022 for the acquisition of this machine, so the 2021 financial statements have already been prepared and audited by that time. Therefore, because the manual entries cannot be adjusted for the depreciation related to those assets, the depreciation related to those assets has been adjusted through the system in the year 2022. In the year 2024, the asset will be revalued and the relevant adjustments will be made.	-Do-
	(ii) Rs.7,475,223, which was over-recorded as Gondola income in the year 2021, was deducted from other income in the financial statements instead of being adjusted to the statement of change of equity.	Thus the Gondola income has been cancelled as it was informed to cancel the purchase of goods from those companies. Therefore, in the year 2021, the Gondola income has been adjusted in each month and in the year	Action should be taken in accordance with the Sri Lanka Accounting Standards.

		2022, the Gondola income has been cancelled. In future such transactions will be accounted as per LKAS 08 standard.	
	(iii) Rs.4,747,174 recovered in the year under review by the company for stock losses in previous years had been shown under other income in the financial statements instead of adjusting to the statement of change of equity.	In future such transactions will be accounted as per LKAS 08 standard.	-Do-
(e)	According to paragraph 51 of Sri Lanka Accounting Standards 16, the residual value and useful life of an asset should be reviewed at least at the end of each financial year, and if the expected status differ from the above estimates, the changes should be accounted as a change in an accounting estimate in accordance with Sri Lanka Accounting Standard 08. The effective lives of 07 items of property and equipment which were fully depreciated at the beginning of the year under review but are still in use amounting to Rs.630,979,043 have not been reviewed after the year 2019.	Lanka Sathosa Company conducted a fixed asset revaluation for the first time in 2019 and plans to conduct a fixed asset revaluation again in 2024.	-Do-
(f)	According to paragraph 08 of Sri Lanka Accounting Standard 20, government grants should not be recognized unless there is reasonable assurance that they will be received. But, an amount of Rs.51,531,803 has been shown as government grants (capital) in the financial statements, but only Rs.5,000,000 was actually received in cash during the year under review.	As government grants have been confirmed by the Ministry, they have been recognized as government grants in the financial statements. Also, in the year 2023, the receipt of government grants will be adjusted on a cash basis.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(g)	According to paragraph 09 of Sri Lanka Accounting Standard 36, an annual impairment assessment should be made regarding impairment losses, but such impairment assessment had not been done regarding impairment losses accumulated up to the year under review amounting to Rs.618,991,224.	Also, these balances are receivable balances that have existed for a long time, and provisions have been made to write off these balances due to the fact that the company's financial statements do not show the true situation if they are shown as receivables.	-Do-

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	According to Cabinet Decision No. 19/1659/108/147 dated June 25, 2019, the approval had been given that Treasury should make funds as an equity investment in government-owned enterprises for 05 years from 2020 to settle the capital value of the loan taken by the company for importing rice. Accordingly, share transfer had not been done even at the end of the year under review for the accumulated value of the loan amount of Rs.5,739,364,265, which was settled for 03 years from the year 2020 to the year under review.	Share transfer had not been done so far.	Action should be taken to obtain a share transfer for the accumulated value of the settled loan amount.
(b)	The unrecognized balance of Rs.3,498,678 in the rent advance account coming from the year 2015 was not reconciled and corrected untill the year under review.	There is an opening balance in the building rent advance account which is a non-detailed balance recorded during the transition from Tally system to Pronto system and remains unchanged at present. Due to technical reasons, detailed information about these balances cannot be obtained from the computer system at present.	Action should be taken to reconcile and correct the unrecognized balance.
(c)	Manual Outlet was not operating in the year under review and the adjustments to be made for Manual Outlet in the year 2021 were made through the Manual Outlet cost of sales account in the year 2022. Therefore, the cost of sales had been overestimated by Rs.915,763,857.	All the outlets have been computerized in June 2021, and for the first time in a year, all transactions have been accounted through a system in 2022. Also, the adjustments to be made for the Manual Outlet in the year 2021 have been adjusted through the Manual Outlet cost of sale account in the year 2022.	Cost of sales should be accurately accounted.
(d)	Without reconciling the damage done to the assets with the insurance compensation received, only Rs.1,082,405 of the compensation received from the insurance	It will be corrected in the financial statements of the year 2023.	Damages to assets and related insurance compensation receipts should be reconciled and accounted.

	company was shown under other income in the financial statements by the company.		
(e)	Capital expenditure of Rs.5,162,373 paid for generators purchased for the company's head office during the year under review had been recorded as a recurrent expenditure in the financial statements. Therefore, property, plant and equipment and profit had been underestimated by that value and depreciation expense and accumulated depreciation had been underestimated by Rs.774,356 in the financial statements.	It will be corrected in the financial statements of the year 2023.	Capital expenditure and recurrent expenditure should be accurately identified and accounted.

1.5.3 Unreconciled Control Accounts or Records

	Subject	Amount as per Financial Statements Rs.	Amount as per Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a)	Trade Receivable Balance	273,398,387	256,691,516	16,706,871	There was a difference between the debtor schedule and the financial statement balance due to errors made by the outlets in settling debtor accounts.	Action should be taken to make balance comparisons and present the correct balances.
(b)	Receivable from Corporate Wholesale Establishment	10,083,353	89,228,613 (Confirmed as per C.W.E.)	79,145,260	Since this balance is a balance for which detailed information cannot be obtained for a long time, a provision for impairment has been made in the financial statements of 2015.	Action should be taken to make comparisons and present correct balances.
(c)	Payable to Corporate Wholesale Establishment	1,688,336,236	2,151,533,977 (Confirmed as per C.W.E.)	463,197,741	The reasons for this change can be stated as the reduction of returns, changes in transport rates, weighbridge charges and lorry shortages.	-Do-
(d)	Trade Payable Account	10,651,299,359	10,802,541,289	151,241,930	The reason for that was that the transactions were recorded directly to the creditor control account without	Action should be taken to make comparisons and account correct balances.

					recording the transactions through the creditor's schedule from the "Pronto" system. Currently, the system blocks transactions in this way.	
(e)	Opening Balances of Property and Equipment	3,661,079,971	2,869,786,064	791,293,907	In the year 2013, the EWIS system was selected as a new computer system, and the balances in the previous planning system were entered into the ledger only as initial balances for the new computer system. There is no data to enter those balances in the fixed asset register separately.	Action should be taken to account the correct balances.
(f)	Annual Depreciation	511,816,061	444,627,748	67,188,313	A manual calculation is not done while calculating the annual depreciation and it is done by the computer system.	Annual depreciation should be accurately calculated and accounted.

1.5.4 Going Concern of the Organization

Audit Observation	Comments of the Management	Recommendation
At the end of the year under review, the deficit of the company was Rs.35,424,512, while current assets were Rs.10,832,852,647 and current liabilities were Rs.17,780,745,951, while current liabilities exceeded current assets by Rs.6,947,893,304. Also, total assets were Rs.12,175,345,725 and total liabilities were Rs.24,785,185,491, while total liabilities exceeding total assets were Rs.12,609,839,766. As a result, the company's ability to meet its liabilities through its assets and continue to operate is uncertain without treasury provision. Furthermore, according to Section 220 of the Companies Act, it was not observed that the Board of Directors has taken necessary measures to protect the existence of the company by paying attention to the existing situation.	In the previous 4 years (2019 - 2022) the net loss of the company has decreased. In the year 2019, the working capital loan under liabilities was Rs.3,000,000,000 by the end of 2022 out of the remaining balance of Rs.1,200,000,000 and the balance due on 31.12.2023 was Rs.750,000,000 only. Therefore, it has been possible to reduce the liability of the company at present.	Action should be taken by the company to continue the operations of the company.

1.5.5 Lack of Documentary Evidence for Audit

	Subject	Amount Rs.	Evidence not made Available	Comments of the Management	Recommendation
(a)	Taken over from Co-Operate Wholesale Establishment			All the assets taken over from the Co-Operate Wholesale Establishment had been fully depreciated by 31.12.2022 and those assets have been removed from further use.	Relevant schedules should be submitted to confirm the balances shown in the financial statements.
(i)	Motor Vehicle	18,821,440			
(ii)	Communication Equipment	3,642,602	Schedules		
(iii)	Other fixed Assets	22,798,843			
(b)	Consumable Stock	78,546,486	Stock Verification Reports	Stock verification had not been done in respect of consumable stock as at 31.12.2022.	Annual physical verification of stock should be done and reports should be submitted.
(c)	Other Receivable Balances	395,896,571	Balance Confirmations	These documents will be submitted later.	Action should be taken to submit balance confirmations.
(d)	Statutory Receivable	4,689,378	Detailed Schedules	It was a long-term balance in the financial statements.	Action should be taken to submit detailed information.
(e)	Lease Creditors	370,759,292	Balance Confirmations	The company has sent letters to the lease creditors asking them to send the balance confirmation letters to the audit division.	Action should be taken to submit balance confirmations.
(f)	Gift Vouchers	9,897,340	Confirmation of Payments	From April 2023, gift vouchers will be properly accounted through the system.	Action should be taken to submit information on confirmation of payment.
(g)	Refundable Deposit Receivables	1,754,044	Balance Confirmations	Attachments are provided.	Action should be taken to submit balance confirmations.
(h)	Trade Creditors	3,553,752,228	Confirmation of Payments	The relevant creditors have been informed by letters to send the creditor balance confirmation letters for the creditor sample provided by the auditors.	-Do-

(i)	Impairment Losses	559,397,378	Approvals of the Board of Directors	Approval of the Board of Directors has been received for all these disposals.	The approval of the Board of Directors should be obtained and submitted.
(j)	Rent Deposits	1,484,264	Details of depository institutions	There is an opening balance of Rs.1,484,264 in the rent deposit account, and that balance is a non-detailed balance recorded during the transfer from the Tally system to the Pronto system.	Action should be taken to submit details of rent deposits.
(k)	Trade Debtors	23,370,164	Debtor age analysis, Balance Confirmations	A debtor age analysis related to the year 2022 cannot be obtained through the system. Also, the relevant debtors have been informed by letters to send the debtor balance confirmation letters for the debtor sample provided by the auditors.	Action should be taken to submit age analyses, and balance confirmations.
(l)	Royalty Fee	4,920,024	Royalty Agreements	The amount paid in the year 2022 had been adjusted through the royalty payment account.	Action should be taken to submit royalty agreements.
(m)	Incentive Payables	853,389	Detailed Schedules.	The difference between the incentives allocated for the year 2022 and the incentives actually spent has been made through a journal entry.	Action should be taken to submit detailed schedules.
(n)	Sale of Vegetables and Fruits	51,436,149	Sales and cost of sales information, trade agreements	The suppliers who have supplied vegetables and fruits have not entered into contracts in the year 2022 as they do not have their business registration certificate.	Action should be taken to present information related to the sale of vegetables and fruits.

1.6 Accounts Receivable and Account Payable

1.6.1 Accounts Receivable

	Audit Observation	Comments of the Management	Recommendation
(a)	Festival advances paid annually should be recovered before paying the next advance, but the value of uncollected festival advances between 1 to 6 years was Rs.4,474,277. Also, the officials who received the festival advance of Rs.1,230,500 included in this value had left the service and the company had not taken action to recover the advance.	Investigations are being carried out regarding the recovery of festival advances.	Festival advances paid annually should be recovered before the next advance is paid.

(b)	The prepaid warehouse rent amounting to Rs.1,469,104 in the year 2020, included in other receivable balances had not been settled by the end of the year under review.	There is a balance of Rs.20,556,898 relating to this supplier and at the time of payment, the pre-paid balance will be reduced.	Action should be taken to settle the prepaid expenses.

1.7 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
Transportation charges amounting to Rs.10,440,757 over 5 years and retention amount due to construction contract companies amounting to Rs.24,396,900 as at 31 December 2022 shown under other payable balances had not been settled even at the end of the year under review.	As at 31 December 2022, the retained balance, after deducting the payments for respective construction contract companies for the construction work of our company is Rs.24,396,900.	Action should be taken to settle the outstanding balance.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 17 of the Social Security Contribution Act No. 25 of 2022	Although the social security contributions should be remitted to the Inland Revenue Department before the 20th of the next month, out of the social security contributions of Rs.83,261,488 for the last quarter of 2022, Rs.37,977,368 were remitted with a delay of 10 months and the remaining amount of Rs.45,284,120 had not been remitted by 16 January 2024.	The return related to social security contributions for the last quarter of 2022 and the tax return related to the first, second and third quarter of 2023 were handed over to the Inland Revenue Department on 22.12.2023 and at present the tax returns have been handed over without delay.	Action should be taken as per Act.
(b) Operational Manual as per Public Enterprise Circular No. 01/2021 dated 16 November 2021			
(i) Paragraph 6.1	It should be ensured that a proper financial management system of the company should be in operation, but 04 accounts maintained by the company in the People's Bank were in overdraft status. The total of overdraft	This is due to the fact that bank overdrafts and bank interest rates were higher in 2022 compared to 2021. The overdraft balance of the institution is determined based on	Action should be taken as per circular.

	balances in the year under review was Rs.5,050,282,232, which had increased by Rs.1,868,683,577 or 37 percent compared to the previous year. During the year under review, the interest paid for bank overdrafts was Rs.829,787,908, which had increased by Rs.607,589,920 or 273 percent compared to the previous year.	the working capital requirements of the institution, and action will be taken to reduce the overdraft balance at present.	
(c) Public Enterprise Circular No. 1/2015 dated 25 May 2015	In the year under review, the company had paid transport allowance of Rs.1,487,500 to 11 officers at Rs.12,500 per month for officers who are not entitled to use official vehicles without Treasury approval.	On 10.09.2019, a letter has been referred to the Director General of Management Services Department explaining the matter for approval of this transport allowance.	The approval of the Department of Management Services should be obtained.
(d)Letters No. DMS/1741 dated 16 May 2017 of the Department of Management Services	The monthly allowance to be paid for the Chief Executive Officer and Deputy General Managers was approved at Rs.95,000 and Rs.90,000 respectively. But on the approval of the Board of Directors, a monthly allowance of Rs.250,000 had been paid to the Chief Executive Officer, and a monthly allowance of Rs.150,000 had been paid for Deputy General Manager positions. Accordingly, in the year under review, an amount of Rs.846,666 and Rs.3,155,000 respectively, were paid in excess to the Chief Executive Officer and 8 Deputy General Managers.	Approval had been given as per the letter No. DMS/1741 and dated 16.05.2017 referred by Director General of Management Services to pay a monthly allowance of Rs.95,000/- for the post of Chief Executive Officer. Also approval had been given as per PED 01/2015 and 02/2015, to pay approved communication, transport and fuel allowances.	The letter of the Department of Management Services should be followed.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.35,424,512 and the corresponding deficit of the previous year was Rs.840,281,278. Accordingly, an increase of Rs.804,856,766 was observed in the financial result. This growth was mainly due to the non-recognition of stock shortages of Rs.342,327,235 as expenses in the financial statements and the growth of Rs.16,314,383,751 in the four main incomes other than promotional items income and stationery income.

2.2 Ratio Analysis

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

Year	2020	2021	2022
Gross Profit Ratio	10.6%	11.6%	12.8%
Net Profit Ratio	(3.9%)	(2.07%)	(0.06)
Current Asset Ratio	0.6	0.5	0.6
Quick Assets Ratio	0.23	0.13	0.16
Debt Ratio	(1600.17)%	(674.94)%	18,538.59%

According to the above ratio analysis, a net loss had been recorded in the previous years and in the year under review. The net loss ratio which was 3.9 percent in 2020 has reduced to 2.07 percent in 2021 and further reduced to 0.06 percent in the year under review. In previous years and in the year under review, current liabilities exceeding current assets were recorded and in the year under review, the ratio of current assets was 0.6 and the quick ratio was 0.16. This situation had major impact on the working capital weakness of the company. The debt ratio had increased from 1600.17 percent in 2020 to 18,538.59 percent in 2022.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
Out of 452 outlets of the company in 2022, 193 outlets or 43% were loss making (after tax and interest). The value of the loss was Rs.287,762,471, out of which 109 outlets had received losses exceeding Rs.1,000,000.	Based on profit before interest and tax, out of 452 outlets, only 75 outlets are making losses. It is 16% as a percentage.	Actions should be taken to minimize losses.

3.2 Management inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	As the progress of the action plan for the year 2022 was not submitted for audit, the performance could not be examined.	The action plan for the year 2024 has been prepared and will be submitted for audit after obtaining the approval of the Board of Directors.	The progress of the action plan should be submitted to the audit.
(b)	Security camera systems had not been installed in 114 outlets of the company and only a part of the security cameras installed in 65 outlets are in working condition. Also, due to the fact that the	In order to be able to maintain direct control of the camera systems in the outlets, which is connected to the head office, a large initial capital has to be	Security camera systems should be installed and properly maintained.

	camera systems of the outlets were not connected to the head office, the head office had not been able to maintain direct control over the outlets. There were continuous stock shortages in outlets, and these deficiencies in the security camera system were affected by that. Also, this security camera system was installed in 2016 and had not taken any steps for maintenance after the expiration of the 02 year warranty period of the contract.	used for it, and a separate staff has to be employed for it. The main objective of our company is to provide quality products at low cost to the customers and it is impossible for our company to allocate funds for this kind of work. Also, the stock reports of the outlets are monitored daily and the organization follows a proper control system in relation to shortages of stocks.	
(c)	As per paragraph 4.1 of the building rent guidelines of the company, it was stated that the rent advance for new buildings should be offset against the rent in equal instalments within a period of 12 months. At the end of the year under review, there was a payable balance of Rs.61,482,959 in the rent account, which exceeded 12 months, of which Rs.34,164,927 were advance balances that were more than 5 years old, and as per the guidelines, action had not been taken to offset the said amount.	Attachments are provided.	Action should be taken as per the building rent guidelines.
(d)	As per the financial statements of the year under review, no amount of stock losses receivable of Rs.342,327,235 had been recovered by the date of audit. When examining the stock loss recovery method of previous years, no value was recovered from the stock shortage of Rs.271,125,743 and Rs.193,280,144 in the years 2018 and 2019 respectively. Out of the stock shortage amounting to Rs.55,253,300 and Rs.194,770,627 respectively, in the years 2020 and 2021, Rs.5,032,576 and Rs.1,151,372 were only recovered. Accordingly, no confirmation was submitted to the audit as to whether there is a possibility to recover the stock shortage value.	After computerizing all the outlets in the year 2021, a physical stock count has been done in the year 2023 and the stock loss for two years has been included in the stock loss on 31.12.2022. Further, Rs.342,327,235 is shown under other receivables as recoverable stock losses in the statement of financial position in the year 2022 was subject to the approval of the Audit Committee and the Board of Directors. Also, steps are being taken to recover the damages and a committee has been appointed in this regard.	The internal control system regarding stock shortages should be strengthened and action should be taken to recover stock shortages from the responsible parties.

		The committee of shortage and human resources department deal with the recovery of stock damage.	
(e)	The company has built a building at a cost of Rs.22,748,813 on a land belonging to the Kamburupitiya local council and has been running a shop since 2014. But there was no lease agreement related to taking over the land on lease basis for the construction of the building or lease agreement related to the legal enjoyment of the building and the land after the building was constructed.	The ownership of the land is with the Kamburupitiya Regional Council and the building has been built and completed by us. According to the draft agreement, the agreement has been announced to be effective for 20 years in such a way that the amount spent for the construction of the building will be offset from the year 2014 to the year 2034.	The ownership should be taken over before the relevant construction is carried out.

3.3 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	The procurement for the purchase of air conditioners for the Dambulla outlet was awarded to a private entity for an amount of Rs.2,424,950. 75 percent, or Rs.1,818,707 had been paid as advance without furnishing advance security, contrary to 5.4.4(i) of the Procurement Guideline. According to N of the bid conditions, the supply of machines should be done within 04 days from the date of submission of orders, but although the orders had been submitted on 12 October 2022, the machines were not supplied by 24 November 2023, the date of audit.	This procurement has been called under the shopping method and currently only 07 days are given to submit the prices for such procurements, so no conditions related to bid security or performance security are included. And currently, the same conditions will be included in the procurement above Rs.05 million. It had been mentioned that the relevant supplier should pay 100% in advance in the quotation. After negotiating with the supplier, it has been agreed to pay 75% as advance and the remaining 25% after completion of the work. Although orders were submitted on 12 October 2022, legal action has been taken regarding the fact that the goods had not been supplied by 24 November 2023, the date of audit.	The provisions of the Procurement Guideline should be followed.

(b)	The contractor had not submitted a performance guarantee in accordance with Section 5.4.8 of the Procurement Guidelines in the procurement work related to the renovation of the roof of the McCallum outlet valued at Rs.6,452,850.	All the works related to BOQ (Bills of Quantities) in this contract had been completed.	The provisions of the Procurement Guideline should be followed.
(c)	According to 5.3.11 (a) and 5.4.8 (b) of the Procurement Guidelines, a performance guarantee and a bid guarantee were not submitted in the procurement work related to the renovation of the Angunakolapalla outlet, and although the initial cost estimate for this procurement was Rs.5,787,719, it was awarded for an amount of Rs.8,000,000	As at 31.12.2023, all the works related to this contract have been completed by the contractor and due to the existence of several defects in the contract, retention money had not been released to him.	-Do-
(d)	In the year 2018, a Human Resource Information System had been established by spending 7,650,000. The data required for this system is uploaded manually by 389 fingerprint machines obtained from one private institution and automatically by 68 fingerprint machines obtained from another private institution. It was not possible to get the daily attendance reports due to two institutions entering the data into the information system and the system was not fully live run until 12 July 2023. Furthermore, the Mobile Application Module included in this system is currently not being used and the ERP Integration process has not been completed so far.	The main operating computer (HRIS Server) of this HRIS system had been installed in-house at our head office since 2017 and due to a problem in the system capacity, HRIS data system has installed on SLT Cloud Server on 12/07/2023 to get more capacity and get a high efficiency service. Our company has 389 fingerprint machines obtained from Finco Technologies (Pvt) Ltd and 68 fingerprint machines obtained from Hsenid Business Solution (Pvt) Ltd currently and these machines are installed in our stores and warehouses. Currently, the HRIS main operating computer (HRIS Server) is on the SLT Cloud server, so the live run is done properly. The Mobile Application Module of this HRIS system has been installed and tests are being carried out regarding the implementation.	The provisions of the Procurement Guideline should be followed.

	Audit Observation	Comments of the Management	Recommendation
(e)	Prior to the approval of the Cabinet to acquire fixed assets on lease for the implementation of the concept of opening 100 new stores, the basic task of procurement had been to call for proposals had been started. Although the two selected suppliers did not supply the goods according to the relevant specification Rs.36,225,245 was paid only for the goods which had been supplied under the approval of the Secretary of the Ministry of Trade. Furthermore, out of these 42 opened outlets, 18 outlets and 24 outlets had incurred losses in the year 2022 and for the last 4 months from 30 April 2023, respectively.	If our company did these fixed asset procurement activities, approximately one outlet would cost about 11 million and it is difficult to meet the financial facilities in this regard. Because of this, all related procurement activities have been done through the Ministry's Procurement Department. Also, although Rs.11 million is to be paid per month for these procurement activities, due to the issues arising from the payment, the Ministry has appointed a committee to look into the matter and based on the recommendations of the committee and the approval of the Board of Directors, Rs.9 million was approved for payment.	-Do-
(f)	Rs.6,300,000 had been paid to a private institute for advertising expenses incurred during the year under review without following a procurement method.	In the year 2022, this amount has been paid for the advertisements advertised in the Derana channel of Television and this channel has been selected based on the Ratings of the Television channels on those days. If a procurement method is followed in this regard, the purpose of conveying the relevant message to more people, which is the need of the institution, will not be fulfilled. A performance security has been obtained for this.	The provisions of the Procurement Guideline should be followed.

3.4 Human Resource Management

	Audit Observation	Comments of the Management	Recommendation
(a)	The post of Deputy General Manager (Marketing) was changed to Head of Online Trading by Board Resolution No. 108 dated 30 July 2021. However, there was no such positions in the approved recruitment procedure, and the new position title was also not	The posts of Deputy General Managers are approved by the Department of Management Services on contract basis. The post of Deputy General Manager (Marketing) has also been approved but the recruitment procedure has not been approved and this post and recruitment has been done with the approval of the Board of Directors.	The position should be included in the recruitment procedure, and the approval of the Department of Management Services should be obtained.

	approved by the Department of Management Services. As a result, the unapproved salary paid to an unapproved position was Rs.4,125,000 from 01 November 2021 to 31 May 2023.		
(b)	All 10 approved sales assistant posts were vacant, and 6 out of 7 approved quality inspection officer posts, or 85 percent, were vacant. The total number of excess carder was 192, including an excess of 183 sales assistant posts. Also, there is no recruitment procedure approved by the Department of Management Services for the posts of Chief Executive Officer and 8 other postions.	316 shop manager positions, 356 assistant shop manager positions and 194 senior sales assistant positions are to be promoted from the currently employed employees who are qualified to fill the vacancies and recruitment for 210 warehouse assistant positions is to be done. Accordingly, by 31.12.2023, employee promotions have been given for 145 acting Shop Manager posts and 151 acting Assistant Shop Manager posts. Arrangements have been made to hold interviews for promotions to the posts of Senior Sales Assistant.	Action should be taken to fulfill the staff requirements for essential and responsible duties, and excess staff should be absorbed after getting approval.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although the draft annual report and financial statements were to be submitted to the Auditor General within 60 days of the end of the financial year, on 02 November 2023, only the financial statements were submitted to the Auditor General with a delay of 245 days.	The draft financial statements for the year 2022 had been submitted to the Audit Committee on 25 July 2023, and after making the recommended adjustments, the financial statements for the year 2022 had been submitted to the Auditor General on 01 November 2023.	Action should be taken as per circular.