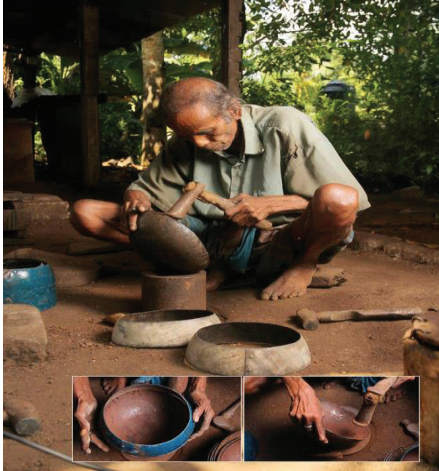


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வருடாந்த அறிக்கை  
Annual Report

2013

“TRULY SRI  
LANKAN”



State Gift & Souvenir Boutique

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இலங்கைகைப்பணிப்பொருட்கள் சபை  
SRI LANKA HANDICRAFTS BOARD

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## **VISION**

To be the leader in the gifts and souvenir items market in Sri Lanka.

## **MISSION**

To be a commercially viable institution of social responsibility expanding the growth potential in the sphere of gifts and souvenir items and opening up large scale marketing opportunities to rural manufacturers with high value added contribution to the tourism industry.

## **OUR PRIME OBJECTIVES**

- Seeing to the contentment of the consumer.
- Making opportunities available for rural craftsmen and entrepreneurs to bring forth innovative products strengthening the rural economy.
- Affording opportunities for consumers to satiate their taste through diversification of products.
- Ensuring consumers value for their money by way of reliability and high end finish.

# Review of the Chairman and Chief Executive Officer

## Background

I am pleased to present the review of the performance of Laksala – Sri Lanka Handicrafts Board for the year 2013. Laksala was established in the year 1964 with the objective of opening up local as well as overseas market opportunities for the local handicraft manufacturers and it has been incorporated as the Sri Lanka Handicrafts Board under the National Crafts Council and Affiliated Institutions Act No. 35 of 1982. Laksala has become the oldest and largest sales network owned by the government in this sphere of activity.

## New Trend

Following a decision made by His Excellency the President in the year 2009, functions of Laksala were brought under the supervision of the Strategic Enterprise Management Agency (SEMA) for restructuring purposes and the activities of the institution have been under restructure since the year 2011. As a result of the decisions made during the last two years, Laksala will gain an upward momentum in its turnover and profits through its strategic plans for the ensuing period of 05 years as well. With Sri Lanka gaining recognition as an island conducive for tourism amidst the peaceful environment prevailing in the country, business activities of Laksala too have seen an upward trend. Under the large scale international propaganda and marketing campaigns set in motion by the Ministry of Tourism, the anticipated tourist arrivals during the year 2016 will shot up to the mark of 2.5 million and the market of the local gifts and souvenir items required by these tourists will concurrently be widened up thereby creating an expanded market opportunity for Laksala.

## Strategic Approach

Through the restructuring process initiated during the year 2011, Laksala attracted the clientele essential for achieving its turnover and profitability as well as for maintaining its consistent sustenance whilst further strengthening the measures taken to do the needful in tandem with the necessities and demand. Such measures were as follows:

- Gaining ground on a new market towards category expansion of Laksala items on sale.
- Establishing the name of the institution in the market through branding.
- Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasant customer service.

Range of all items marketed by Laksala with the introduction under the brand name of “Laksala” will be further expanded and the steps necessary to make such items easily available as the most qualitative gifts and souvenir items to both local and foreign travellers will also be given a further boost. Accordingly the reorganized entity of Laksala will put on show a wide range of very high quality items of trendy fashions and it will, under its brand name of “Laksala”, display ceramic items, leather goods, handloom textile

industry items, batik items, rush and reedwear as well as value added tea and spices for sale in its attractive showrooms. Measures required for expanding the activities of marketing necessary to cherish a fond memory of the institution as the sole and key state entity in the sale of gifts and souvenir items in Sri Lanka in the hearts and minds of the local and foreign customers and also for further luring an enhanced clientele base towards the institution were taken.

### **Establishing the name of the Institution in the market through branding**

Laksala transformed its sales showrooms into very high quality outlets in keeping with the modern market trends. Accordingly measures were also set in motion to keep up the showcasing of the items at a very higher level and to achieve the anticipated sales targets through branding by bringing the showrooms of Laksala to an elevated pedestal in such a manner as to make them attractive to consumers in refurbished outlets with the introduction of products under the brand name of “Laksala”.

### **Developing positive attitudes within the members of the staff in such a manner as to deliver a pleasant customer service**

As Laksala was in dire need of personnel to go in hand with the modern market trends action was taken to maintain a competent staff strength with a composition of 40% and 60% respectively on a permanent and contract basis and they were encouraged to provide a friendly customer service with the enhancement of their efficiency by means of proper necessary training and through motivation. The entire process of new recruitments required for an excellent customer care was undertaken on the basis of contract appointments. This turn of events has therefore immensely contributed to further accomplish the primary objectives of the institution by way of their efficiency and productivity in parallel to their salaries and allowances.

### **Expansion of product categories**

Through the introduction to the market place of the innovative products following the manufacture of high quality new creations to cater to the present needs of the market safeguarding the identity of the local products with a view to expanding not only the activities of the institution but also the tasks involving the expansion of its category of trading products under the restructuring process in collaboration with the National Design Centre, National Crafts Council and the Designs Division of the University of Moratuwa, items such as gems and jewellery, tea, spices, leather goods, ceramics as well as masks in addition to other souvenir items will be showcased whilst Laksala through its own efforts of promoting and featuring its exclusive products and new designs has gone on to set up a separate unit for that purpose. Moreover, winning the trust of the local as well as foreign clients of Laksala has been further strengthened by way of issuing an all important guarantee certificate for local gem and jewellery items sold by Laksala, in liaison with the National Gem and Jewellery Authority.

## **Network of Supplies**

The network of supplies of this institution encompasses the purchase of gifts and souvenir items meant to be sold, planning of its production line, quality control as well as provision of modern designs. National handicrafts manufacturers registered as 5000 or thereabout in the year 2012 have been increased up to 6000 during this year. Through the development of new marketing opportunities new manufacturers were encouraged to gain access into these fields whilst giving a sustainability to their industry.

## **Commencement and Opening up of new Laksala Showrooms**

Laksala during the year 2013 expanded its network of trading activities by way of setting up of new showrooms with very modern and attractive customer facilities of every description in the museum premises of Colombo, Botanical Garden premises of Peradeniya and in Pinnawela and Galle whilst working towards achieving its sales targets. Yet another major tasks carried out during this year was the commencement of the renovation work of the building that housed the Colombo Fort Laksala Showroom in such a manner as to catch the eye of the local customers as well as foreign tourists. Furthermore, facilities necessary for the clients visiting the Laksala Showroom at Thummulla were further augmented.

## **Staff Training and New**

Training activities were geared up in a manner that develops the positive attitudes of the staff with a view to meeting the consumer requirements. The objective of inculcating knowledge in novel strategies of marketing was as such the provision of customer services of its highest order at international level.

## **Online Trading Facilities via Internet**

Year 2013 saw the Laksala's inauguration of the online internet trading facilities for its customers to purchase the items of their choice from anywhere in the world through electronic technology.

## **Robust Financial Activities**

Results achieved through the overall measures taken during the year 2013 by us are clearly reflected in our financial performance and yield. During this year a sales income of Rs. 688,112,358/- has been gained and it accounts for an increase of Rs. 198 million or 40.6% in comparison to the year 2012.

## **Results achieved**

Sales income of Rs. 489.5 million in the year 2012 increased to Rs.688.1 million in the year 2013 and it shows a growth of 40.6% as against the year 2012. This sales income yield has returned a net profit of Rs. 23.4 million before tax. To lay claim on this achievement during the year 2013 measures undertaken by us were immensely instrumental and those particular efforts not only went on to strengthen the economy

of the small and medium scale handicraft manufacturers supplying goods to our institution, but also to make it possible to have the manufacturers who had long abandoned the manufacture of items owing to various reasons rejoined in the institution. By the end of the year 2013, the number of registered suppliers actively engaged in supplying goods to Laksala was over 5000. Moreover, the payments made to the handicrafts manufacturers have also been on the increase as shown hereunder.

Year	Payments made on purchases of souvenir items and handicraft creations
2011	Rs. 183,830,429/-
2012	Rs. 316,716,472/-
2013	Rs. 532,210,540/-

## **Our Gratitude**

On behalf of Laksala, I first of all profusely thank His Excellency, the President of the Democratic Socialist Republic of Sri Lanka, Hon. Minister of the State Resources and Enterprises Development and Hon. Minister of Botanical Gardens and Public Recreation. And I also wish to extend my solemn thanks to the members of the Board of Directors for making judgements and decisions that were incessantly required to elevate the institution into a higher pedestal.

Furthermore, I owe a debt of gratitude to Hon. Secretary of the Ministry and other Ministry officials and the staff of the Strategic Enterprise Management Agency (SEMA) including its Chairman for extending us support for the progression of the institution in its hour of need.

In addition, I specifically thank the entire membership of the Board of Directors, Senior Management Committees and all other members of the staff for their contribution and commitment made to raise the institution to a higher level. My special thanks go to the manufacturers supplying handicraft and souvenir items including traditional and innovative products bringing forth new creations after identifying consumer needs having joined hands with us and our amiable and valued clientele who reposed trust in our institution at all times.

In conclusion, I, whilst stating that our institution will in future resort to all necessary measures to strengthen the Sri Lankan rural economy and uplift the living standard of the rural community, do also expect to achieve the mark of sales income up to Rs. 1000 million in the year 2014.



**Anil Koswatta**

Chairman / Chief Executive Officer

## **Board of Directors**

Mr. Anil Koswatte Chairman/CEO – Sri Lanka Handicrafts Boards

### **Board of Director**

Mrs. Iresha Bandara Treasury Representative – General Treasury

Mr. Damitha Kumarasinghe Director General Public Utility Commission

Mr. VajiraWicramasinghe Managing Director ABC Lubricant (Pvt ) Ltd.

Mr. W.A.D. Rajapaksha Senior Assistant Secretary  
Ministry of Cooperative & Internal

### **Observer**

Mr. S. Deniyawatta Chief Accountant  
Ministry of State Resource& Enterprises Development

### **Board Secretary**

Mrs.L.M.E. Perera Chief Operations Officer



# Senior Management Team

Mrs. L.M.E. Perera	Chief Operations Officer
Mrs. RohiniPerera	Director (Finance)
Mr. C.N. Dahanayake	Director (Personal & Administration)
Mr. KelumJayawardhana	Director (Sales)
Mr.J.K.D.S.K.Jayaneththi	Chief Internal Auditor
Mr. A.U.D. Perera	Project Officer
Mrs. DevikaKumari	DeputyDirector (Distribution)
Mrs. VajiraSamararathne	Deputy Director (Procurement)
Mr.SampathSenevirathne	Assistant Director (Product Development)
Mr.J.D.Harischandra	Assistant Director

## **Administration**

The Administration and Human Resource Division is committed to be responsible to the management for achieving goals and objectives of the organization as well as for the provision of the other support services. During the year under review the staff constituted 181 personnel, details of which are as follows:

<b><u>Category of Employees</u></b>	<b><u>Total Strength</u></b>	
	<b>Fixed</b>	<b>Contract</b>
01. Executive Staff	04	02
02. Staff related to Sales	47	52
03. Other Staff (Supportive Services)	40	36
	<u>91</u>	<u>90</u>
<b>Total</b>	-	<b><u>181</u></b>

The staff strength in comparison to the previous year has been decreased from 190 to 181.

Building up of a well-trained, committed and efficient work force has become a very vital aspect for the implementation of a properly drawn out short term, medium term and long term business plan in an environment of competitive trading. Therefore, measures have been taken to improve the quality and the productivity of the employees by implementing training and development programmes and by introducing an attractive incentive payment scheme. Under the ongoing process of reforms, activities relating to advancement and classification of the essential category of employees have been successfully completed. Apart from this, the new organizational structure with overall cadre strength of 207 personnel has been met with the approval of the Department of Management Services. In addition, further instructions have been issued to maintain the total staff strength comprising 40% of fixed employees and 60% of contract employees. As such the institution was able to recruit suitably qualified new employees for the Sales Division with less commitment.

The main act dealing with the financial control of the state enterprises within the scope of the Finance Act No. 38 of 1971 and the provisions of the said act are applicable to the Sri Lanka Handicrafts Board. The present position of the institution is that the Board of Directors under the statute governing the Board should stand responsible to the Ministry which in turn stands responsible to the Parliament as usual. The Auditor General too makes his report on the financial performance of the Board whilst the Committee on Public Enterprises (COPE) subjects the report presented by him to an intensive scrutiny.

In this connection, the Secretary of the Ministry acts as the Chief Accounting Officer whereas the Chairman / Chief Executive Officer functions as the Accounting Officer. The Management Committee of the institution in its overall activities of the business management, financing and operations should stand responsible to the Chairman / Chief Executive Officer.

# **Financial Statements**

# Financial Review

YEAR ENDED 31 <sup>ST</sup>	DECEMBER 2013		LKR
	<u>Laksala</u>	<u>Project</u>	<u>Total</u>
Turnover	688,112,358	11,632,153	699,744,511
Other Income	33, 508 ,867	3,283,645	36,312,512
Gross Profit for the year	461, 072,705	3,621,450	464,694,158
Net P rofit/(Loss) for the year	13,322,79	420,300	13,742,679
Current Assets	709 ,695 ,780	29 ,216 ,827	738 ,912 ,607
Current Liabilities	596 ,396 ,019	67 ,364 ,480	663 ,760 ,499
Total Assets	1, 800,526,484	92,253,314	1,892,779,798
Total Equity	577,823,341	22,853,699	600,677,040
Total Liabilities	1,222,703,143	69,417,615	1,292,120,758
Gross Profit Ratio	67 .01%	31.13%	66.41%
Net Profit Ratio	1.94%	3.61%	1.96%
Ot her Income	4.80%	28.23%	5.19%
Current Ratio (Times)	1.19	0.43	1.11
Return on Equity %	2.31%	1.84%	2.29%

SRI LANKA HANDICRAFTS BOARD

STATEMENT OF  
FINANCIAL POSITION

As at 31st December 2013

	Laksala Showrooms			Projects		Total 2013 LKR	Total 2012 LKR	Total 2011 LKR
	2013 LKR	2012 LKR	01 st Jan 2012 LKR	2013 LKR				
<b>ASSETS</b>								
Property, Plant & Equipment	1,090,830,704	712,203,239	226,482,684	63,036,487	1,153,867,191	775,234,911	289,434,691	
Non-current assets	1,090,830,704	712,203,239	226,482,684	63,036,487	1,153,867,191	775,234,911	289,434,691	
Inventories	547,391,810	242,220,919	128,133,297	3,868,830	551,260,640	246,153,450	131,021,348	
Trade Deb. & Other Receivables	154,234,702	125,764,536	58,426,315	25,033,161	179,267,863	166,752,077	100,674,639	
Cash & Cash Equivalents	8,069,268	24,990,500	17,806,115	314,836	8,384,104	27,886,407	22,680,024	
Current assets	709,695,780	392,975,955	204,365,727	29,216,827	738,912,607	440,791,934	254,376,011	
Total assets	1,800,526,484	1,105,179,194	430,848,411	92,253,314	1,892,779,798	1,216,026,845	543,810,702	
<b>EQUITY AND LIABILITIES</b>								
<b>CAPITAL AND RESERVES</b>								
Stated Capital	73,628,878	73,628,878	73,628,878	-	73,628,878	73,628,878	73,628,878	
Capital Reserves	510,806	510,806	510,806	-	510,806	510,806	510,806	
Revaluation Reserves	434,903,833	434,903,833	134,175,116	21,164,824	456,068,657	456,068,657	155,339,940	
Grants Received	62,000,000	12,000,000	12,000,000	41,951,172	103,951,172	53,951,172	53,951,172	
Profit & Loss	6,779,824	(6,542,556)	(66,172,570)	(40,262,297)	(33,482,473)	(47,225,154)	(110,414,877)	
Total capital & reserves	577,823,341	514,500,961	154,142,230	22,853,699	600,677,040	536,934,359	173,015,919	
Retirement Benefit Obligations	22,703,097	28,417,509	28,119,582		22,703,097	28,417,509	28,119,582	
Deferred Tax Liabilities	21,677,208	11,517,706	1,517,706		21,677,208	11,517,706	1,517,706	
Deferred Income	180,747,327	90,000,000			180,747,327	90,000,000	-	
Loan	401,179,493	158,844,548	137,605,228	2,035,135	403,214,628	160,879,683	139,937,716	
Non-current liabilities	626,307,124	288,779,763	167,242,516	2,035,135	628,342,259	290,814,898	169,575,004	
Creditors and Accruals	352,112,270	165,502,235	90,082,250	67,364,480	419,476,750	251,762,948	173,194,572	
B.O.C Loan - Short Term	234,655,494	93,937,218	19,375,000		234,655,494	93,937,218	19,375,000	
Bank Overdraft	9,628,255	42,459,017	6,415		9,628,255	42,577,422	8,650,207	
Current liabilities	596,396,019	301,898,470	109,463,665	67,364,480	663,760,499	388,277,588	201,219,779	
Total equity & liabilities	1,800,526,484	1,105,179,194	430,848,411	92,253,314	1,892,779,798	1,216,026,845	543,810,702	

Final Position

The accounting policies & notes to the Financial statements from Page No.01 to 39 form an intergral part of these Financial Statements.



Mrs. S.R.M. Perera  
Chief Finance Officer

The Directors are responsible for the fair presentation & preparation of Financial Statements signed for & on behalf of the Board.

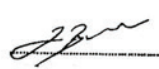
Meeting held on 30th May 2014



Mr. Anil Koswatte  
Chairman



Mrs. L.M.E. Perera  
Chief Operating Officer



Board Director

## SRI LANKA HANDICRAFTS BOARD

### STATEMENT OF COMPREHENSIVE INCOME 2013

For the year ended 31st December

		Laksala Showrooms		Projects	Total	Total	Total
For the year ended 31st December	2013	2012	2011	2013	2013	2012	2011
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Revenue							
Local	688,112,358	489,564,350	274,893,093	11,632,153	699,744,511	504,317,546	292,203,148
Export			1,475,428	-			1,475,428
	688,112,358	489,564,350	276,368,521	11,632,153	699,744,511	504,317,546	293,678,576
Cost of Sales	(227,039,653)	(202,628,850)	(110,957,238)	(8,010,703)	(235,050,356)	(209,163,608)	(127,735,091)
GROSS PROFIT/(LOSS)	461,072,705	286,935,500	165,411,283	3,621,450	464,694,155	295,153,938	165,943,485
Engineering Services							
Grants Received	16,515,298	10,000,000			16,515,298	10,000,000	
Other Income	16,993,569	7,656,544	22,740,963	3,283,645	20,277,214	13,263,743	22,828,430
Administrative Expenses	(359,918,584)	(188,578,972)	(122,081,983)	(5,590,048)	(365,508,632)	(192,507,923)	(124,718,493)
Distribution Cost	(47,489,083)	(23,271,225)	(4,263,820)	(885,959)	(48,375,042)	(29,587,664)	(4,289,972)
Export Expenses	(1,534,323)	-	(136,554)	-	(1,534,323)	-	(136,554)
Result from operating activities	85,639,582	92,741,847	61,669,889	429,088	86,068,670	96,322,093	59,626,896
Finance Cost	(62,178,283)	(23,111,834)	(9,295,292)	(8,787)	(62,187,070)	(23,132,371)	(9,310,490)
Profit before tax	23,461,300	69,630,013	52,374,597	420,300	23,881,600	73,189,722	50,316,406
Tax expense(NBT,ESC,VAT)	(10,138,920)	(10,000,000)	(687,233)		(10,138,920)	(10,000,000)	(687,233)
Profit for the year	13,322,380	59,630,013	51,687,364	420,300	13,742,680	63,189,722	49,629,173

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31st December

		Laksala Showrooms		
For the year ended 31st December		2013	2012	2011
	NOTE	LKR	LKR	LKR
<b>Revenue</b>				
Local	1	688,112,358	489,564,350	274,893,093
Export				1,475,428
		688,112,358	489,564,350	276,368,521
<b>Cost of Sales</b>	2	<b>(227,039,653)</b>	<b>(202,628,850)</b>	<b>(110,957,238)</b>
<b>GROSS PROFIT/(LOSS)</b>		<b>461,072,705</b>	<b>286,935,500</b>	<b>165,411,283</b>
<b>Engineering Services</b>				
Grants Received		16,515,298	10,000,000	
Other Income	3	16,993,569	7,656,544	22,740,963
Administrative Expenses	4	(359,918,584)	(188,578,972)	(122,081,983)
Distribution Cost	5	(47,489,083)	(23,271,225)	(4,263,820)
Export Expenses	6	(1,534,323)	-	(136,554)
<b>Result from operating activities</b>		<b>85,639,582</b>	<b>92,741,847</b>	<b>61,669,889</b>
<b>Finance Cost</b>	7	<b>(62,178,283)</b>	<b>(23,111,834)</b>	<b>(9,295,292)</b>
<b>Profit before tax</b>		<b>23,461,300</b>	<b>69,630,013</b>	<b>52,374,597</b>
<b>Tax expense(NBT,ESC,VAT)</b>		<b>(10,138,920)</b>	<b>(10,000,000)</b>	<b>(687,233)</b>
<b>Profit for the year</b>		<b>13,322,380</b>	<b>59,630,013</b>	<b>51,687,364</b>

## STATEMENT OF FINANCIAL POSITION

As at 31st December 2013		Laksala Showrooms		
	Note	2013 LKR	2012 LKR	1 st Jan 2012 LKR
<b>ASSETS</b>				
Property, Plant & Equipment	8	1,090,830,704	712,203,239	226,482,684
<b>Non-current assets</b>		<b>1,090,830,704</b>	<b>712,203,239</b>	<b>226,482,684</b>
Inventories	9	547,391,810	242,220,919	128,133,297
Trade Debtors & Other Receivables	10	154,234,702	125,764,536	58,426,315
Cash & Cash Equivalents	11	8,069,268	24,990,500	17,806,115
<b>Current assets</b>		<b>709,695,780</b>	<b>392,975,955</b>	<b>204,365,727</b>
<b>TOTAL ASSETS</b>		<b>1,800,526,484</b>	<b>1,105,179,194</b>	<b>430,848,411</b>
<b>EQUITY &amp; LIABILITIES</b>				
<b>CAPITAL &amp; RESERVES</b>				
Stated Capital		73,628,878	73,628,878	73,628,878
Capital Reserves		510,806	510,806	510,806
Revaluation Reserves		434,903,833	434,903,833	134,175,116
Grants Received		62,000,000	12,000,000	12,000,000
profit & loss		6,779,824	(6,542,556)	(66,172,570)
<b>Total capital &amp; reserves</b>		<b>577,823,341</b>	<b>514,500,961</b>	<b>154,142,230</b>
Retirement Benefit Obligations		22,703,097	28,417,509	28,119,582
Deferred Tax Liabilities		21,677,208	11,517,706	1,517,706
Deferred Income		180,747,327	90,000,000	
Loan		401,179,493	158,844,548	137,605,228
<b>Non-current liabilities</b>		<b>626,307,124</b>	<b>288,779,763</b>	<b>167,242,516</b>
Creditors and Accruals	12	352,112,270	165,502,235	90,082,250
B.O.C Loan - Short Term		234,655,494	93,937,118	19,375,000
Bank Overdraft	13.00	9,628,255	42,459,017	6,415
<b>Current liabilities</b>		<b>596,396,019</b>	<b>301,898,470</b>	<b>109,463,665</b>
<b>Total Equity &amp; Liabilities</b>		<b>1,800,526,484</b>	<b>1,105,179,194</b>	<b>430,848,411</b>



## STATEMENT OF

## CASH FLOWS

For the year ended 31st December 2013

	2013	2012
	LKR	LKR
<hr/>		
Cash flows from operating activities		
Net profit after tax expense-Laksala	13,322,380	59,630,013
Net profit/Loss after tax expense-Project	420,300	3,559,709
Net profit after tax expense	13,742,680	63,189,722
Adjusted for		
Depreciation	20,988,590	4,988,976
Deffered Revenue Rent & Revaluation		50,291,073
Operating Profit/Loss before working capital changes	34,731,270	118,469,771
Chainges in		
Inventories	(305,107,190)	(115,132,102)
Trade & Other Receivables	(12,515,786)	(57,194,544)
Trade & Other Payables	645,959,439	175,487,593
	363,067,733	121,630,718
<hr/>		
Cash flow from investing Activities		
Realization of Investment		6,000,000
Purchase of property,Plant& Equipment	(396,716,019)	(156,351,550)
Net Net Cash flows used in investing activities	(396,716,019)	(150,351,550)
Cash Flow from Financing Activities		
Special grant received	50.00000	
Net Net Cash flows used in financing activities	50.00000	
Net Increase /(decrease)in cash & cash equivalentents	16,351,714	(28,720,832)
Cash & cash equivalentents at the beginning of the year	(17,595,866)	11,124,966
Cash & cash equivalentents at the end of the year	(1,244,151)	(17,595,866)
Bank Overdraft	(9,628,255)	(45,513,450)
Cash in Hand & at Bank	8,384,104	27,917,584
	(1,244,151)	(17,595,866)
<hr/>		

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31st December 2013	Stated Capital LKR	Capital Reserves LKR	Revaluations Reserves LKR	Grants LKR	Profit & Loss LKR	Total LKR
<b>Balance as at 1st January 2012</b>	<b>73,628,878</b>	<b>609,779</b>	<b>164,426,394</b>	<b>110,003,447</b>	<b>(110,414,877)</b>	<b>238,253,621</b>
<b>Total comprehensive income for the year</b>	-	(98,973)	291,642,263	(56,052,275)	-	235,491,015
Profit for the year 2012-Laksala	-	-	-	-	59,630,013	59,630,013
Profit for the year 2012-Project	-	-	-	-	3,559,709	3,559,709
<b>Balance as at 31st December 2012</b>	<b>73,628,878</b>	<b>510,806</b>	<b>456,068,657</b>	<b>53,951,172</b>	<b>(47,225,154)</b>	<b>536,934,359</b>
<b>Balance as at 1st January 2013</b>	<b>73,628,878</b>	<b>510,806</b>	<b>456,068,657</b>	<b>53,951,172</b>	<b>(47,225,154)</b>	<b>536,934,359</b>
<b>Total comprehensive income for the year</b>						
<b>Changes during the year</b>	-	-	-	50,000,000	-	50,000,000
Profit for the year 2013-Laksala	-	-	-	-	13,322,380	13,322,380
Profit for the year 2013-Project	-	-	-	-	420,300	420,300
<b>Balance as at 31st December 2013</b>	<b>73,628,878</b>	<b>510,806</b>	<b>456,068,657</b>	<b>103,951,172</b>	<b>(33,482,473)</b>	<b>600,677,040</b>

## SRI LANKA HANDICRAFTS BOARD

### NOTES TO THE FINANCIAL STATEMENTS

<b>NOTE 01-SALES ANALYSIS</b>	<b>2,013</b>	<b>2012</b>	<b>2011</b>
	<b>Rs:</b>	<b>Rs:</b>	<b>Rs:</b>
<b><u>Laksala Main Branch</u></b>			
Fort - Local	85,698,913	119,807,728	89,258,736
- Export			1,475,428
<b>Laksala Branches</b>			
Kandy	24,734,806	22,760,766	21,225,997
Galle	40,149,330	10,535,205	12,117,817
Jawatta		-	469,389
Nuwara Eliya	69,387	1,331,217	862,864
Matara		-	431,135
Moragella		1,115,713	2,229,739
Kurunagala		1,110,123	1,624,754
Thummulla	318,462,761	261,208,337	111,156,167
Katubedda	30,122,835	35,376,963	6,561,415
Polgolla		212,504	1,004,652
Katunayaka	45,602,178	9,255,786	14,717,350
Molagoda		58,638	511,364
Waragoda		30,071	263,478
Battaramulla	20,986,139	16,888,745	12,458,236
Racecourse	21,485,194	7,969,874	
Welipenna - 1	18,022,753	1,902,681	
Museum	34,551,150		
K Zone	6,107,224		
Pinnawala	15,336,208		
Welipenna - 2	15,037,275		
Peradeniya	2,133,773		
Direct Sales	9,612,433		
<b>Total</b>	<b><u>688,112,358</u></b>	<b><u>489,564,350</u></b>	<b><u>276,368,521</u></b>

<b>NOTE 02-COST OF SALES</b>			
Opening Stock	242,220,919	128,133,297	55,260,106
<b>ADD</b>			
Purchases	532,210,544	316,716,472	183,830,429
	774,431,463	<b>444,849,769</b>	<b>239,090,535</b>
<b>LESS</b>			
Closing Stock	(547,391,810)	(242,220,919)	(128,133,297)
<b>Cost of Sales</b>	<b><u>227,039,653</u></b>	<b><u>202,628,850</u></b>	<b><u>110,957,238</u></b>

**NOTE 03-OTHER INCOME**

Ape Gama	7,851,798		
Special Sales	2,308,790	4,699,802	
Other Income	6,091,401	2,489,449	
Circuit Reservation	120,580	96,810	
Foreign Exchange gain		370,483	
Miscellaneous Income	621,000		12,704,364
Profit on disposal of Assets			10,036,599
	<b>16,993,569</b>	<b>7,656,544</b>	<b>22,740,963</b>

**NOTE 04- ADMINISTRATIVE EXPENSES**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>LKR</b>	<b>LKR</b>	<b>LKR</b>
Salaries & Allowance	61,101,692	53,885,947	49,730,973
Over Time	15,372,830		2,678,206
Consultancy Fees	1,486,911	3,296,275	433,404
Incentive & Overtime	31,553,322	31,725,549	11,075,249
Warrants & Tickets		-	25,750
E.P.F. & E.T.F.	8,324,768	5,128,951	4,736,361
Gratuity	1,128,694	3,174,805	2,368,153
Special Allowance		-	365,000
Staff Welfare	9,960,510	3,632,148	993,989
Uniforms & ID	221,878	362,500	-
Travelling Allowance	3,828,185	4,959,019	624,130
- Foreign		-	1,000,000
Staff Training	161,091	229,137	-
Medical Expenses	1,105,691	806,580	925,334
Directors Fees	1,322,666	1,391,206	559,858
Audit Fees	250,000	250,000	230,000
Vehicle Licence Fees		-	12,145
Legal Fees	1,206,072	-	323,383
Advertisement	15,558,718	5,007,782	1,939,219
Security Service	23,455,718	9,087,361	3,402,066
Printing & Stationery	6,736,160	6,014,733	1,647,980
News Papers & Periodicals	22,133	-	15,303
Postage/Tele/Telex	10,172,362	3,524,026	2,307,875
Fuel & Lubricants	3,375,684	3,277,375	1,644,679
Tool & Implement		-	1,110
Stock Verification	515,776	65,993	173,538
Other Expenses		-	414,919
Trade Licence Fees	209,825	64,332	26,663
Computer Expenses	1,580,716	128,942	938,039
Staff Travelling Allowance		-	671,344
Parking	570,704	432,000	110,000
Rent & Rates	36,421,544	3,596,349	4,028,330
Insurance	778,509	634,475	534,889
Water Bill	975,722	963,023	850,221
Electricity	24,859,008	17,596,510	7,269,782
Rep & Maint - Building	6,139,412	4,011,147	4,434,939

## Notes to the Financial Statements

For the year ended 31st December 2013

### NOTE 04-ADMINISTRATIVE EXPENSES CONTD.

	2013	2012	2011
	LKR	LKR	LKR
Rep & Maint - Machinery	782,432	253,986	739,119
Rep & Maint - Vehicle			536,557
Rep & Maint - Others		-	225
Maintenance Software		1,165,990	-
Vehicle Overheads	24,829,107	11,170,449	2,572,220
Deperciaton	16,622,287	4,988,976	2,609,346
Depreciation - Vehicle		-	3,770
Amotization- Building	20,881,600		
Stamp Duty		-	200,000
Cleaning Services	8,028,593	4,228,369	-
VRS	3,093,187	3,107,395	8,927,915
Concession Fees	3,754,726	417,644	-
Tender Expenses	52,500		
Openning Ceromany Expenses	6,352,628		
Ape Gama Expenses	4,735,679		
Paye Expenses	2,389,544		
	<u>359,918,584</u>	<u>188,580,972</u>	<u>122,083,983</u>

### NOTE 05-DISTRIBUTION COST

	2013	2012	2011
	LKR	LKR	LKR
Commission & Discounts	13,703,130	8,513,517	2,020,462
Sponsorships	5,170,745	4,567,550	753,461
Fair & Exhibition		666,906	29,413
Packing Materials Locals	12,004,538	5,721,984	1,039,974
Business Promotion	12,677,189	2,577,754	119,850
Special Services		-	39,150
Rep.&Main.Purchase Goods	65,458	168,913	76,051
Rep.&Main.Engraving Goods		-	6,716
Transport	3,868,024	-	178,743
Insurance & Freight Charges		544,094	
Others		510,507	
	<u>47,489,083</u>	<u>23,271,225</u>	<u>4,263,820</u>

**NOTE 06-EXPORT EXPENSES**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>LKR</b>	<b>LKR</b>	<b>LKR</b>
Packing Material			32,922
Insurance & Freight Charges	1,534,323		99,479
Others			4,153
	<u><b>1,534,323</b></u>		<u><b>136,554</b></u>

**NOTE 07-FINANCE COST**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>LKR</b>	<b>LKR</b>	<b>LKR</b>
Overdraft Interest	3,372,529	644,798	2,137,850
Bank Charges	312,013	332,231	412,630
Loan Interest	58,493,740	22,134,804	3,021,277
Bad Debts		-	3,723,535
Fines & others			
	<u><b>62,178,283</b></u>	<u><b>23,111,834</b></u>	<u><b>9,295,292</b></u>

As at 31st December 2013	Land & Buildings		Plant & machinery		Furniture, fittings & office equipment		Computer Software		Inventory Article		Capital work-in progress		Lease Building		Total	
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Cost or deemed cost																
Balance at 1 January 2012	206,477,805	16,237,473	7,856,753	9,623,839	6,547,853								666,662	247,410,385		
Additions	33,629,264	11,000,251	12,352,213	3,876,413	5,999,721							123,122,952		189,980,814		
Revaluation	290,522,195													290,522,195		
Disposals																
Transfers from W.I.P.																
Balance at 31 December 2012	530,629,264	27,237,724	20,208,966	13,500,252	12,547,574							123,122,952	666,662	727,913,394		
Balance at 1 January 2013	530,629,264	27,237,724	20,208,966	13,500,252	12,547,574							123,122,952	666,662	727,913,394		
Additions	21,693,313	46,434,719	30,700,527	10,386,657	9,316,770									118,531,986		
Revaluation																
Disposals																
Transfers from W.I.P.																
Balance at 31 December 2013	552,322,577	73,672,443	50,909,493	23,886,909	21,864,344							(56,492,973)	666,662	789,952,407		
Depreciation																
Balance at 1 January 2012	10,206,522	8,268,584	1,501,458	1,924,768	951,137									20,927,701		
Charge for the year		1,623,748	785,675	1,924,768	654,785									4,988,976		
Disposals	(10,206,522)													(10,206,522)		
Balance at 31 December 2012	-	9,892,332	2,287,133	1,924,768	1,605,922									-		
Balance at 1 January 2013	-	9,892,332	2,287,133	1,924,768	1,605,922									15,710,155		
Charge for the year	3,591,093.00	4,118,433	3,256,791	4,005,359	1,650,611									16,622,288		
Disposals																
Balance at 31 December 2013	3,591,093	14,010,765	5,543,924	5,930,127	3,256,533									32,332,443		
Carrying amounts																
At 1 January 2012	196,271,283	7,968,889	6,355,295	9,623,839	5,596,716								666,662	226,482,684		
At 31 December 2012	530,629,264	17,345,392	17,921,833	11,575,484	10,941,652							123,122,952	666,662	712,203,239		
At 1 January 2013	530,629,264	17,345,392	17,921,833	11,575,484	10,941,652								666,662	589,080,287		
At 31 December 2013	548,731,484	59,661,678	45,365,569	17,956,782	18,607,811							66,629,979	666,662	757,619,965		
Development of Building Amortization														35,4092,339		
														-20,881,600		
														1,090,830,703		



SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

NOTE 09-STOCKS	2013 Rs:	2012 Rs:	2011 Rs:
Fort	26,987,968	44,762,564	32,727,072
kandy	11,995,408	6,928,872	5,087,540
Galle	27,076,885	229,586	2,884,652
NuwaraEliya		2,359,854	1,166,940
Kurunagala		883,174	1,194,033
Moragalla		951,838	1,770,060
Battaramulla	57,068,527	6,711,354	4,683,624
Thummulla	143,189,042	103,346,492	38,133,982
Katubadda	16,882,509	15,167,502	10,312,675
Waragoda		-	381,056
Polgolla		-	456,930
Katunayaka	14,098,574	12,540	1,856,388
Molagoda		19,390	284,496
Warehouse Fort	6,500,317	25,420,505	27,193,849
Race Course	27,140,923	26,999,530	
Welipanna		8,179,268	
Main Warehouse-Katubedda	11,862,028		
Museum	149,149,910		
Welipenna 1	10,275,418		
Welipenna 2	9,623,355		
K Zone	12,815,000		
Peradeniya	6,227,665		
Pinnawala	9,338,286		
Norris Canal w/house	12,729,315		
Shortage/Repair		248,450	
Damages or Repair	(5,572,319)		
	<u>547,391,811</u>	<u>242,220,919</u>	<u>128,133,297</u>

NOTE 10-TRADE DEBTORS & OTHER RECEIVABLES

	2013	2012	2011
	LKR	LKR	LKR
Trade Debtors	27,991,534	18,375,996	9,557,829
Deposits & Advances	125,910,168	107,098,706	48,187,219
Staff Loan	333,000	289,834	681,267
	<u>154,234,702</u>	<u>125,764,536</u>	<u>58,426,315</u>

NOTES TO THE FINANCIAL Statement

For the year ended 31st December 2013

NOTE 11-Components of Cash & Cash Equivalents

	2013	2012	2011
	LKR	LKR	LKR
Cash in Hand	2,359,290	4,501,872	2,434,937
Petty Cash Imprest		2,460,627	1,156,919
Guide Commission Imprest		433,966	123,359
Coin Imprest		398,246	388,246
Cash at Bank	5,709,978	16,195,789	12,702,654
Investment		1,000,000	
	<u>8,069,268</u>	<u>24,990,500</u>	<u>16,806,115</u>

NOTE 12-TRADE CREDITORS & OTHER PAYABLES

	2013	2012	2011
	LKR	LKR	LKR
Trade Creditors	236,990,506	106,724,045	26,713,140
Accrued Charges	12,418,330	29,340,585	34,586,587
Others	102,703,434	29,437,605	28,782,523
	<u>352,112,270</u>	<u>165,502,235</u>	<u>90,082,250</u>

NOTE 13-BANK OVERDRAFT

	2013	2012	2011
	LKR	LKR	LKR
Cash at Bank	481,606		
Cash at Bank - section A	2,461,578		
Cash at Bank - BOC	5,865		
Bank of Ceylon	6,679,206	42,459,017	
Peoples Bank			6,415
	<u>9,628,255</u>	<u>42,459,017</u>	<u>6,415</u>

# STATEMENT OF COMPREHENSIVE INCOME

## PROJECT

For the year ended 31st December 2013

		2013	2012	2011
	Note	LKR	LKR	LKR
Revenue		11,632,153	14,753,195	17,310,055
Cost of Sales	01	(8,010,703)	(6,534,758)	(16,777,853)
<b>GROSS PROFIT/(LOSS)</b>		<b>3,621,450</b>	<b>8,218,437</b>	<b>532,202</b>
Other Income		3,283,645	5,607,199	87,467
Administrative Expenses	02	(5,590,048)	(3,928,951)	(2,516,660)
Distribution Cost	03	(885,959)	(6,316,439)	(146,002)
Finance Cost	04	(8,787)	(20,537)	(15,198)
<b>Result from operating activities</b>		<b>420,300</b>	<b>3,559,709</b>	<b>(2,058,191)</b>
<b>Profit for the year</b>		<b>420,300</b>	<b>3,559,709</b>	<b>(2,058,191)</b>

# SRI LANKA HANDICRAFTS BOARD

## Statement of Financial Position

As at 31st December 2013

Project	Note	2013 LKR	2012 LKR	2011 LKR
<b>ASSETS</b>				
Property, Plant & Equipment		63,036,487	63,031,672	62,952,007
<b>Non-current assets</b>		<b>63,036,487</b>	<b>63,031,672</b>	<b>62,952,007</b>
Inventory	5	3,868,830	3,932,531	2,888,051
Trade Debtors & Other Receivables	6	25,033,161	40,987,541	42,248,324
Cash & Cash Equivalents	7	314,836	2,895,907	4,873,909
<b>Current assets</b>		<b>29,216,827</b>	<b>47,815,979</b>	<b>50,010,284</b>
<b>TOTAL ASSETS</b>		<b>92,253,314</b>	<b>110,847,651</b>	<b>112,962,291</b>
<b>EQUITY</b>				
Revaluation Reserve		21,164,824	21,164,824	21,164,824
Grants Received		41,951,172	41,951,172	41,951,172
Retained earning		(40,262,297)	(40,682,598)	(44,242,307)
<b>Total equity</b>		<b>22,853,699</b>	<b>22,433,398</b>	<b>18,873,689</b>
Other Creditors		2,035,135	2,035,135	2,332,488
<b>Non-current liabilities</b>		<b>2,035,135</b>	<b>2,035,135</b>	<b>2,332,488</b>
Creditors and Accruals	8	67,364,480	86,260,713	83,112,322
Bank Overdraft	9		118,405	8,643,792
<b>Current liabilities</b>		<b>67,364,480</b>	<b>86,379,118</b>	<b>91,756,114</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>92,253,314</b>	<b>110,847,651</b>	<b>112,962,291</b>

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01 -COST OF SALES

	2013 RS.	2012 Rs:	2011 Rs:
Stock as at 01-01-2013	1,023,900	208,875	438,445
Add: Good Transfers	8,209,691	7,349,783	16,548,283
	9,233,591	7,558,658	16,986,728
Less: Stock as at 31-12-2013	(1,222,888)	(1,023,900)	(208,875)
	8,010,703	6,534,758	16,777,853

NOTE 02-ADMINISTRATIVE EXPENSES

Salaries & Allowances	3,158,880	2,848,303	1,400,161
Incentive & Overtime	491,579	279,770	20,380
E. P. F & E. T. F	360,791	184,646	
Electricity	130,167	155,277	128,794
			768
Water	44,004	45,321	12,679
Insurance		10,554	29,975
Staff Welfare	171,822	54,432	25,275
Security	725,900		44,442
Keselwatta Expenses	52,948	3,129,178	
Postage & Telephone	34,675	55,803	50,740
Medical	35,937	45,275	20,734
Printing	50,895	41,640	26,467
Rent & Rates	14,712	12,012	10,125
Travelling	73,500	93,000	32,330
Cleaning	244,239	38,600	
Warrant			1,485
Others		64,317	4,023
Entertainment			4,182
Speial Sales Expenses			704,100
	5,590,048	7,058,129	2,516,660

NOTE 03-DISTRIBUTION COST

Fuel & Lubricants			34,162
R/M - Machinery	134,181		12,072
R/M - Building	254,931	35,235	10,825
R/M - Vehicle			9,513
Transport	496,847	251,695	79,430
Commission & Discount			
R/M Machinery			
R/M Others			
Bag Centre Expenses		2,900,331	
Keselwatta Expenses	52,948	3,129,178	
Incentives			
	938,907	6,316,439	146,002

NOTE 04-FINANCE COST

Bank Charges	8,787	20,537	15,198
	8,787	20,537	15,198

NOTE 05-STOCKS

	2013 Rs:	2012 Rs:	2011 Rs:
Project Pollgolla		-	63,457
Project Waragoda		-	265,605
Project Katubadda	3,868,830	3,932,531	2,408,927
Project Keselwatta		-	150,062
	3,868,830	3,932,531	2,888,051

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2013

### NOTE 06 - TRADE DEBTORS AND OTHER RECEIVABLES

	2013	2012	2011
	Rs:	Rs:	Rs:
TRADE DEBTORS	5816368	7681921	3533072
OTHER RECEIVABLES	19216793	33305620	3875252
	<u>25033161</u>	<u>40987541</u>	<u>42248324</u>

### NOTE 07-CASH & CASH EQUIVALENTS

	2013	2012	2011
	Rs:	Rs:	Rs:
Project Waragoda			99,478
Project Katubadda	162,512	2,690,196	4,767,930
Project Keselwatta	152,324	205,711	6,501
Project Polgolla			
	<u>314,836</u>	<u>2,895,907</u>	<u>4,873,909</u>

### NOTE 08-TRADE CREDITORS & ACCRUALS

	2013	2012	2011
	Rs:	Rs:	Rs:
Trade Creditors	5,404,229	5,404,229	5,404,229
Accrued Charges	1,154,449	1,239,727	956,688
Others	60,805,802	79,616,757	76,751,405
	<u>67,364,480</u>	<u>86,260,713</u>	<u>83,112,322</u>

### NOTE 09-BANK OVERDRAFTS

Project Waragoda			548,470
Project Katubadda			7,365,897
Project Keselwatta			729,425
Project Polgolla			
Cash at Bank - 2026716			
Bag Center		118,405	
	<u>-</u>	<u>118,405</u>	<u>8,643,792</u>

## Manufacturing Account - Project Division

For the year ended 31st December 2013

	Note	2013 LKR	2012 LKR	2011 LKR
<b>RAW MATERIALS</b>				
Stock as at 01/01/2013		2,281,781	1,127,174	1,013,273
Purchases		4,393,514	5,193,793	11,320,222
		<b>6,675,295</b>	<b>6,320,967</b>	<b>12,333,495</b>
Less				
Stock as at 31/12/2013		(1,619,942)	(2,281,781)	(1,127,174)
		<b>5,055,353</b>	<b>4,039,186</b>	<b>11,206,321</b>
<b>ADD</b>				
Direct Expenses		136,840.0	62,796	486,325
Contract Labour				1,508,597
<b>Prime Cost</b>		<b>5,192,193</b>	<b>4,101,982</b>	<b>13,201,243</b>
<b>ADD</b>				
Factory Overheads	10	3,416,648	2,651,712	4,569,980
		<b>8,608,841</b>	<b>6,753,693</b>	<b>17,771,223</b>
Add:WIP as at 01/01/2013		626,850	1,222,940	
Less:WIP at at 31/12/2013		(1,026,000)	(626,850)	(1,222,940)
		<b>8,209,691</b>	<b>7,349,783</b>	<b>16,548,283</b>

## SRI LANKA HANDICRAFTS BOARD

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 01-FACTORY OVERHEAD

	2013	2012	2011
	Rs:	Rs:	Rs:
Salary	2,105,920	1,898,869	3,267,042
Overtime			47,554
E.P.F & E.T.F	240,527	123,097	-
Electricity	195,251	103,518	300,520
Repair & Main. -Machinery			28,167
-Building			25,259
-Vehicle			22,197
Commission & Discount			-
Incentive	327,719	186,514	-
Newspapers & Periodicals			1,792
Water	29,336	30,214	29,585
Insurance		7,036	69,942
Staff Welfare	114,548	36,288	58,975
Security			103,698
			-
Postage & Telephone	23,116	36,379	118,394
Other			9,388
Medical			48,379
Printing			61,757
Rent & Rates			23,625
Travelling	49,000	62,000	75,436
Transport	331,231	167,797	185,334
Marrant			3,465
Fuel & Lubricants			79,712
Bank Charges			9,759
	<u>3,416,648</u>	<u>2,651,712</u>	<u>4,569,980</u>



## **NOTES TO THE FINANCIAL STATEMENTS CONTD...**

### **Accounting Policies**

#### **01. Basis of Preparation**

##### **1.1 Principal Activities and Nature of Operations**

Principal activities of the Board are marketing and selling of gift & souvenir Items.

##### **1.2 Basis of measurement**

The Statement of Financial position, Statements of comprehensive income, Statement of changes in equity and statement of cash flows, Together with accounting policies and notes (Financial Statement) of the Board as at 31st December 2014 and for the year ended, Generally Accepted Accounting Principles. These Financial Statements are presented in Sri Lankan Rupees. The Financial Statements are prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements.

##### **1.3 Use of Estimates and Judgments**

The preparation of Financial Statements are in conformity with SLAS (Sri Lanka Accounting Standards) which requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

##### **1.4 Going Concern**

When preparing the Financial Statements, we have made an assessment of the liability of the organization to continue as a going concern in the foreseeable future. We do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future.

#### **02. Comparative Information**

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

### 03. Significant Accounting Policies.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by the Board.

#### 3.1 Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date.

#### 3.2 Property, Plant and Equipment

##### a) Recognition and Measurement

Property Plant and Equipment other than land are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self -constructed assets includes the cost materials, direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Where an item of Property, Plant and Equipment comprise major components having different useful lives, they are accounted for as separate items of Property, Plant and Equipment.

Gains and losses upon disposal of items of Property, Plant and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment, and are recognized net within "Other Operating Income" in the Income Statement.

##### b) Depreciation

The provision for depreciation is calculated using a straight line method on the cost of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the estimated useful lives.

The principal rates used are as follows.

1. Building	2.5%
2. Machinery Equipment	10%
3. Inventory Articles	10%
4. Furniture & Fittings	10%
6. Computer Hardware & Software	20%

c) Profit / Loss from Sales of Property, Plant and Equipment.

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sale occurs and is classified as other Operating Income.

### **3.3 Capital Work in Progress**

Capital expenses incurred during the year, which are not completed as at the Balance Sheet date are shown as advance payments, whilst the capital assets which have been completed during the year end put to use have been transferred to Property, Plant and Equipment.

### **3.4 Intangible Assets**

Intangible assets that are acquired by the Board, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

a) Basis of Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and cost can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

b) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the income Statement as incurred.

c) Retirement and Disposal

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

d) Amortization

Amortization is recognized in the income Statement on a straight-line basis over the estimated useful lives of intangible Assets, from the date that they are available for use. A policy was developed to amortize or charge the cost incurred on renovation or construction on the basis of the following criteria.

NATURE OF EXPENSE/INCOME	OWNERSHIP	BASIS	PERIOD
<b>Renovation</b>	Owned	Amortize the cost incurred over a period of 10 Years	10 Yrs
<b>Construction</b>	Owned	Capitalization of cost of construction & normal depreciation will be charged at 5%.	20 Yrs
	Leased	Cost of construction /renovation amortized over the period of the lease or 10 years period whichever is less.	10 Yrs
	Occupied	Neither owned nor leased – Capitalize the cost of construction & amortize over a period of 10 years	10 Yrs
<b>Grants Received</b>	-	Grants received to meet the renovation & construction expenses should be amortized over a period of 10 years	10 Yrs

**Table (A)**

**AMORTIZATION OF RENOVATION EXPENSES AND CONSTRUCTION EXPENSES**

SITE	NATURE OF EXPENDITURE	LEASE PERIOD	COST(LKR)	BASIS	AMORTIZATION CHARGE	UNAMORTIZED BALANCE C/F
MUSEUM	CONSTRUCTIONS	10 YEAR	172,847,765.42	5%	8,642,388.27	164,205,377.15
BATTARAMULLA	CONSTRUCTIONS		117,704,905.75	5%	5,885,245.29	111,819,660.46
PINNAWALA	RENOVATION		10,086,000.00	10%	1,008,600.00	9,077,400.00
PERADENIYA	RENOVATION	10 YEAR	31,657,966.00	10%	3,165,796.60	28,492,169.40
GALLE	CONSTRUCTIONS	OWN BUILDING		5%		-
WELIPENNA	RENOVATION	5 YEAR	10,269,017.76	10%	1,026,901.78	9,242,115.98
RACE COURSE	RENOVATION	10 YEAR	1,113,612.24	10%	111,361.22	1,002,251.02
KATUNAYAKA	RENOVATION		1,060,000.00	10%	106,000.00	954,000.00
UNAWATUNA	RENOVATION		1,000,000.00	10%	100,000.00	900,000.00
K ZONE	RENOVATION		8,353,071.63	10%	835,307.16	7,517,764.47

**354,092,338.80**

**20,881,600.32**

**333,210,738.48**

### **3.5 Impairment**

The carrying amounts of the board's assets are reviewed at each balance sheet date to determine where there is any indication of impairments. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the Income Statement.

### **3.6 Trade and Other Receivables**

Trade and other receivables are stated at the amount estimated to be realized. Provision has been made in the Financial Statements for bad and doubtful debts.

### **3.7 Inventories**

Inventories are valued at the lower of cost and net realizable value, after making provision for obsolete and repairable items. Net realizable value is the price at which inventories can be sold in the ordinary course of business. Damaged stock and repair stock are shown under stock schedule.

### **3.8 Cash and Cash Equivalents**

Cash and Cash Equivalents are defined as cash in hand and short term highly liquid investments, readily convertible to know amounts of cash for the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and net of outstanding bank overdrafts, short term borrowings and short term investments.

### **3.9 Cash Flow Statements**

The Cash Flow Statements have been prepared using the indirect method in accordance with Sri Lanka Accounting Standard No. 09 –Cash Flow Statements.

## **4 Employee Benefits**

### **a) Defined Benefit Plan – Retirement Gratuity**

The liability for Retirement Benefit Obligation under the payment of Gratuity Act. No. 12 of 1983 is a define benefit plan covering 181 employees of the organization. In order to meet this liability a provision is carried forward in the balance sheet equivalent to an amount calculated based in a half month salary of the last month of the financial year of all employees for each completed year of service commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement.

## b) Define Contribution Plan

Employee's Provident Fund & Employee's Trust Fund. Employees are eligible for Employees Provident Fund contribution and Employees Trust Fund contributions in line with respective statutes and regulation. The Board contributes 12% and 3% on gross employments of employees to Employee's Provident fund and Employee's Trust Fund respectively.

## 5.Loans – Long term/ Short term

### a) Bank of Ceylon – Rs. 400 M

Rs.100 M facility to meet the supplier payments on revolving credit basis and Rs.300 M to finance the working capital requirements to meet construction expenditure and supplier payments was obtained from the Bank of Ceylon mortgaging the Fort building valued at Rs.497M .

### b) Regional Development Bank- Rs. 200 M

Rs. 200 M facility was obtained from the Rural Development Bank, Kelaniya branch to meet urgent working capital requirements. No security was offered by us as General Treasury has arranged the loan facility.

## 6. Liabilities and provisions

Liabilities and provisions are recognized in the Balance sheet when there is a present legal /constructive obligation as a result of the past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year of the Balance Sheet date are treated as current liabilities in the Balance Sheet. Liabilities payable after one year from the Balance Sheet date are treated as non- current liabilities in the Balance Sheet.

### a) Trade and Other Payables

Trade and other payables are stated at their cost.

## 7. Revenue

### 7.1 Sales of Goods

Revenue from the sales of goods is measured at fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably and there is no continuing management involvement with goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sales.

## 7.2 Other Operating Income

a) Profit & Loss from Sale of Property, Plant and Equipment.

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sales, occurs and is classified as other Operating Income.

## 7.3 Capital Grant Received

Capital Grants received have been recognized as differed Income and amortized over a period of 10 years.

Rs.100,000,000 was received from the Ministry of Economic Development , under DiviNaguma program to re construct and refurbishment the Museum Sales Complex in the year 2012 and Rs.107,212,625/= was received from the General Treasury under the National budget proposal.

The grants received during the year under review have been accounted as follows:

### AMORTIZATION OF GRANTS RECEIVED

RECEIVED FROM	YEAR	GRANT RECEIVED	AMORTIZED AMOUNT @ 1/1/13	INCOME FOR 2013	UNAMORTIZED BALANCE C/F
Economic Development Ministry	2012	100,000,000.00	10,000,000.00	10,000,000.00	80,000,000.00
Budget Allocations	2013	36,000,000.00	-	3,600,000.00	32,400,000.00
Budget Allocations	2013	10,224,642.80	-	1,022,464.28	9,202,178.52
Budget Allocations	2013	42,109,637.11	-		42,109,637.11
Budget Allocations	2013	11,099,919.83	-	1,109,991.98	9,989,927.85
Budget Allocations	2013	7,828,425.83	-	782,842.58	7,045,583.25

207,262,625.57	10,000,000.00	16,515,298.85	180,747,326.72
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## 7.4 Expense Recognition

### a) Revenue Expenditure

The profit earned by the Board as shown in the Income Statement is after providing for all known liabilities and for depreciation of Property, Plant and Equipment.

For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence this presentation method is adopted.

### b) Capital Expenditure

Expenditure incurred for the purposes of extending or improving assets of a permanent nature by means to carry on the business or for the purposes of increasing the earning capacity of the business has been treated as Capital Expenditure.

Gains or losses of revenue nature on the disposal of property, plant and Equipment have been accounted for in the Income statement.

### c) Deferred revenue expenditure

#### 1) Amortization of re-launching expenses

Re-launching of sales outlets after renovating and construction work has cost large sums due to various expenditure items included in it. Further newly constructed sales outlets also launched spending considerable amount. During the under review 5 sales outlets were launched incurring Rs.19,000,000/=. A policy was adopted to recognize the expenditure in the financial statements amortizing the cost incurred over a period of 3 years. The un-amortized balance recognized in the financial statements as deferred revenue expenditure. Accordingly the cost incurred on each employee is spread over the balance period of service on even basis. The unamortized balance remains as deferred revenue expenditure.

Location	Cost (Rs.)	Charge for Year 1/3 (Rs.)	Deferred revenue exp. (Rs.)
Museum	10,423,953	3,474,651	6,949,302
Battaramulla	6,795,454	2,265,151	4,530,303
Galle	1,241,170	413,723	827,446
Peradeniya	297,305	99,102	198,203
Welipenna	300,000	100,000	200,000
	<u>19,057,882</u>	<u>6,352,627</u>	<u>12,705,255</u>



## 2) Cost incurred on VRS

During the under review as part of the re-structuring process, 20 employees opted for VRS offered under the PED 10 and Rs.10,432,332.25 have been incurred. In order to spread the cost over the balance service period an accounting policy was adopted. The amount amortized and the unamortized balance is comprised as follows.

	(Rs.)
Total Cost incurred	<b>10,432,332.25</b>
Less Amortized during the year	<b><u>3,093,186.68</u></b>
Balance /Deferred revenue expenditure	<b><u>7,339,145.37</u></b>

## 7.5 Taxation

### Income Tax Expenses

Income tax expenses for the year comprise of current and deferred tax. Income tax is recognized in the Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

## 7.6 Borrowing costs

Borrowing costs are recognized as an expense in the year in which they are incurred.

## 7.7 Comparative information

Comparative information has been reclassified where necessary to confirm to the current year's presentation.

## 7.8 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrences or non- occurrence of uncertain future events, which are beyond the Board's control.

## 7.9 Events Occurring After the Balance Sheet Date

All material post Balance Sheet events have been considered disclosed and adjusted where applicable.

### **7.10 Craft Training division**

The activities of the Craft Training Division have been ceased with effect from the year 2009 as all the staff have been transferred and almost all the available physical assets have been handed over to the National Crafts Council in terms of the Cabinet decision dated 21/12/2008.

However, the balances remaining in the books as at that date have not been removed or transferred from the books and remain unsettled. Action has now been taken to settle these balances with the approval of the General Treasury until the formal approval is obtained and the remaining balances are disclosed with the financial statements as a separate entity. Comparative figures relating to these items have been adjusted accordingly. Please refer page no. (Craft Training Division). Balances remaining unsettled in the Craft Training division have been disclosed separately pending approval from the General Treasury comparative figures relating to these items have been adjusted accordingly.

Note - 7.10

**SRI LANKA HANDICRAFTS BOARD**

**STATEMENTS OF FINANCIAL POSITION**

**Craft Training**

As at 31st December 2013

	2013
	LKR
<b>ASSETS</b>	
Property, Plant & Equipment	46,298,422
<b>Non-current assets</b>	<b>46,298,422</b>
Trade Deb. & Other Receivables	31,140,299
Cash & Cash Equivalents	31,177
<b>Current assets</b>	<b>31,171,476</b>
<b>Total assets</b>	<b>77,469,898</b>
<b>EQUITY AND LIABILITIES</b>	
<b>CAPITAL AND RESERVES</b>	
Capital Reserves	814,419
Revaluation Reserves	9,086,454
Grants Received	55,336,829
Profit & Loss	(17,524,970)
<b>Total capital &amp; reserves</b>	<b>47,712,732</b>
Deferred Tax Liabilities	12,345,384
<b>Non-current liabilities</b>	<b>12,345,384</b>
Creditors and Accruals	14,475,754
Bank Overdraft	2,936,028
<b>Current liabilities</b>	<b>17,411,782</b>
<b>Total equity &amp; liabilities</b>	<b>77,469,898</b>



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கணக்காய்வாளர் தலைமை அறிப்பி நினைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



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எனது இல. }  
My No. }

TC1/A/SLHB1/2013/3

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Your No. }

දිනය  
திகதி }  
Date }

04 December 2015

The Chairman,  
Sri Lanka Handicrafts Board.

J/HR  
FNA PI  
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Report of the Auditor General on the Financial Statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2013 in terms of the Section 14(2)(c) of the Finance Act, No. 38 of 1971

Reference to my letter of even number dated 30 June 2015 on the above subject.

02. The English version of the above mentioned report is sent here with.

H.M.Gamini Wijesinghe

Auditor General

Copies to: 1. Secretary - Ministry of Industry & Commerce  
2. Secretary - Ministry of Finance



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



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My No. }

TC1/A/SLHB1/2013/3

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Your No. }

දිනය  
திகதி }  
Date }

30 June 2015

The Chairman,  
Sri Lanka Handicrafts Board.

**Report of the Auditor General on the Financial Statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2013 in terms of the Section 14(2)(c) of the Finance Act, No. 38 of 1971**

The audit of financial statements of the Sri Lanka Handicrafts Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 64(3) of the National Crafts Council and Allied Institutions Act No. 35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Board on 27 February 2015.

**1.2 Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### 1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

### 1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial positions, statement of financial performance, statement of changes in equity and cash flow statement.

## 2. Financial Statements

### 2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I had not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit opinion. Accordingly, I do not express an opinion on these financial statements.

### 2.2 Comments on Financial Statements

#### 2.2.1 Sri Lanka Accounting Deficiencies

The following observations are made.

##### (a) Sri Lanka Accounting Standards – (LKAS) 09

The cash flow statement had not been prepared in accordance with the Standard to reflect the cash outflows and cash inflows during the year under review. The accuracy of the cash flow statement was questionable in audit due to the following weaknesses that existed.

- (i) Overstatement of depreciation by a sum of Rs.6,352,628.
- (ii) Inaccuracy of presentation of cash flows statement in relation to finance expenses, trade and other expenses and investment activities.



(b) Sri Lanka Accounting Standard – (LKAS) 10

Even though the Kesone Showroom procured on rent basis had been modernised at a cost of Rs.8,353,071 and opened on 14 June 2013, it had been closed down due to the non-receipt of the expected income by March 2014. Even though the expenditure on the modernization of the building had been shown under non-current assets, action had not been taken for the write off of the financial loss resulting from the closing down of the showroom or for disclosure by way of a note to the financial statements.

(c) Sri Lanka Accounting Standard - (LKAS) 20

Even though a Government capital grant of Rs.114,862,626 had been received in the year under review, a sum of Rs.760,000 out of that had been given to the National Craft Council on an order made by the Chairman of the Board without the approval of the Treasury. As such the capital grant given to the Board could not be made use of for the relevant activity and the transaction had not been included in accounts.

### 2.2.2 Accounting Policies

The following observations are made.

- (a) Even though the showroom with the Museum constructed in the preceding year with Government grants had not been completed, a sum of Rs.10,000,000 out of the grant had been recognized to income as amortization. That asset had been completed and capitalized. The showroom had been depreciated according to the depreciation policy of the Board at 5 per cent and a sum of Rs.10,000,000 or 10 per cent had been brought to account as amortization. In addition to this, a sum of Rs.1,800,000 exceeding the depreciation on the Battaramulla showroom, had been recognized to income as amortization. As such the income of the preceding year and the year under review had been erroneously overstated by sums of Rs.10,000,000 and Rs.6,800,000 respectively.

- (b) Accordingly to the policy of the Board in connection with voluntary retirements is accounting for the entire amount of compensation paid in each year as expenditure of such year. Contrary to that, a sum of Rs.3,093,187 out of the compensation amounting to Rs.10,432,332 only had been brought to account as expenditure of the year, while the balance sum of Rs.7,339,145 had been shown under the current assets as prepayments.
- (c) Sums totaling Rs.17,219,407 had been spent on the opening ceremonies of the Museum and the Battaramulla Showroom. A policy decision had been reached under Note No. 7.4 (c) of the financial statements for the write off of this recurrent expenditure in three years. Instead of writing off Rs.12,705,254 to the Income and Expenditure Account for the year, that had been brought to account as a current asset (prepayments).

### 2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Even though the stock as at the end of the year had been computed by conducting an annual verification of stocks, the balance according to the computer had been brought to account. As such action had not been taken for the identification of the stock excess amounting to Rs.3,475,710 and stock shortages amounting to Rs.5,309,076 detected during the year for making necessary adjustments or for the recovery from the parties responsible. The stock as at the end of the year under review had been overstated by a sum of Rs.1,833,366.
- (b) The total expenditure of the “Ape Gama” Project operated as a Project of the Board amounted to Rs.14,207,039 and out of that a sum of Rs.4,735,679 only had been brought to account as expenditure of the year and the balance sum of Rs.9,471,360 had been brought to account as current assets (prepayments).
- (c) A special grant of Rs.25,467,530 received by the Board from the Government about three years ago had been shown under creditors.





- (d) **Provision for depreciation** for the year under review had not been made in respect of the **fixed assets** of the Projects and Crafts Training Centres at Katubedda and Kenelwatta totalling Rs.63,036,487.
- (e) A stock of outdated and discoloured goods totaling Rs.5,572,319 which cannot be sold had been shown under the Debtors, Deposits and Prepayments of the year.
- (f) Depreciation amounting to Rs.841,169 had not been made in respect of the Laksala showroom, at Galle capitalized in the year under review.
- (g) Fixed assets valued at Rs.46,298,422 current assets valued at Rs.31,171,476, non-current liabilities valued at Rs.12,345,384 , current liabilities valued at Rs.17,411,782 and the capital reserves valued at Rs.47,712,732 relating to crafts training transferred to the National Crafts Council had been eliminated from the statement of financial position as at the end of the year under review and shown as a note without effecting settlement.

#### **2.2.4 Unsettled Balances**

Out of the debtors and deposit balances totaling Rs.67,660,197 , a sum of Rs.46,440,350 had been balances older than 03 years and necessary action had not been taken for the settlement of those balances.

#### **2.2.5 Lack of Evidence for Audit**

The registers, schedules and the Register of Advances in respect of current liabilities totaling Rs.56,394,885 and sundry advances totaling Rs.11,837,868 had not been furnished for audit and as such those could not be satisfactorily vouched or verified in audit.

#### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

Instances of non-compliance with laws, rules, regulations, etc., observed during the course of audit are given below.



Reference to Laws, Rules, Regulations, etc.,	Particulars of non-compliances
(a) Section 44 (b) of the National Crafts Council and Allied Institutions Act, No. 35 of 1982	Even though the local and foreign sale and marketing promotion of handicraft articles is the main objective of the Sri Lanka Handicrafts Board, no articles whatsoever had been exported to foreign countries during the year under review.
(b) Section 12 of the Finance Act, No. 38 of 1971	Even though a copy of the Annual Report for the year 2013 proposed for publication with the financial statements should be presented to the Auditor General, it had not been so done.
(c) Treasury Circular No. 842 of 19 December 1978	A Register of Fixed Assets had not been maintained for fixed assets totaling at Rs.63,103,149.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
Financial Regulation 371	Even though the maximum limit of advances payable is Rs.20,000, advances up to Rs.500,000 had been granted to 36 Officers.



(c) Public Enterprises Circular No. PED/12  
of 02 June 2003

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(i) Section 8.3.8

Cash rewards and donations totaling Rs.1,796,701 had been paid by the Board to various 36 institutions and persons without the prior approval of the Cabinet of Ministers.

(f) Letter No. PE1/000/6 (Allow) Vol. II  
dated 05 June 1998 of the Department  
of Public Enterprises

Even though only the Chairman of the Board can obtain reimbursement of entertainment expenses, contrary to that, reimbursement of entertainment expenses up to a maximum of Rs.150,000 per month had been approved for the Chief Executive Officer without obtaining the approval of the Cabinet of Ministers and a sum of Rs.1,819,845 had been paid during the year under review.

(g) Circular No. PED/50 dated 28 October  
2008 of the Department of Public  
Enterprise

Even though a Chairman of the Board or Corporation is entitled to 220 litres of petrol or Rs.20,000 per month or Rs.30,000 per month if a motor vehicle of the Board is not used, contrary to that, the Chairman has obtained a sum of Rs.1,867,848 for the motor vehicle and the Driver's salary at Rs.150,000 per month and Rs.600,000 as fuel allowance at Rs.50,000 in the capacity of Chairman / Chief Executive Officer.



(h) Procurement Guidelines of 25 January 2006

(i) Section 2.7.5

The Secretary to the Ministry should appoint a Procurement Committee for the Board and one of its members should be the Assistant Secretary / Director. Nevertheless, the Secretary to the Ministry had not appointed such Committee in terms of the Guidelines. Instead a Department Procurement Committee had been appointed by the Board comprising with the Board officers Chairman, Managing Director Executive Director (Finance), and Project Director.

(ii) Section 2.14.1 and Section 21 of the Supplement to Guidelines dated 23 February 2012

According to the Procurement Guidelines, a Department Procurement Committee can execute contracts valued less than Rs.20 million only by inviting quotations from registered contractors. Nevertheless, contracts valued between Rs.2.8 million to Rs.125 million had been executed through the registered contractors under the approval of the Department Procurement Committee as mention above.



(iii) Section 3.2

Even though the National Competitive Bidding Procedure should have been followed in terms of the Procurement Guidelines for the constructions and rehabilitation of sales outlets by the Board at a cost of Rs.354 million, it had not been so done. The Board had invited quotations only from the four registered contractors and awarded the contracts to one contractor.

(iv) Section 5.4.4

Even though a maximum advance of 20 per cent of the contracted amount can be paid by obtaining an acceptable advance payment guarantee, the Board had paid unlimited advances as requested by the contractors without obtaining advance payment guarantees. Those represented 82 per cent to 100 per cent of the contract value.

(v) Section 5.4.6

Even though a specified amount should be retained from every payment made to the contractor and kept until the expiry of the defects liability period, it had not been so done in connection with different contracts valued at Rs.252 million.



- (vi) Section 5.3.5 According to the Guideline, on the eligibility of bidders, the domestic contractors should be registered with the Institute of Construction Training and Development. But it was not revealed that those contractors had been registered accordingly.
- (vii) Section 5.4.8 and Supplement 18 dated 08 September 2010 to the Procurement Manual Any contract for works should require a performance security of not less than 5 per cent of the estimated contract sum to safeguard the procurement entity in case of breach of contract by the contractor. But such security had not been obtained in connection with work valued at Rs.252 million.
- (viii) Section 5.3.10 Even though bid validity for a prescribed period should have been obtained from all contractors participating in the Bid Inviting Process in connection with the construction and rehabilitation works valued at Rs.252 million or follow the alternative arrangements made therefor. But there was no evidence that bid validity periods had been obtained.



(ix) Section 5.4.12

Even though the payments made for covering the Value Added Tax should be informed to the Commissioner General of Inland Revenue with copy to the Auditor General before the fifteenth day of the following month, it had not been so done.

(x) Section 8.13.03

According to the Procurement Guidelines, the maximum amount that can be allowed for contract variations is 10 per cent. Nevertheless, payment for additional work amounting to 58 per cent of the estimated amount for carrying out improvements to the Laksala Showroom at Galle, had been made.

(i) Circular No. DMS/G3/60/2 dated 21 December 2012 of the Department of Management Services of the Ministry of Finance

The Scheme of Recruitment under the restructure in terms of paragraph 02 of the Circular had not been prepared.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial results of the Board for the year amounted to a net profit of Rs.13,742,680 as compared with the corresponding net profit of Rs.63,189,722 for the preceding year. Accordingly, a deterioration of the financial results amounting to Rs.49,447,042 as compared with the preceding year was indicated.



## 3.2 Analytical Financial Review

An increase of liabilities more than the assets was indicated. Details appear below.

- (a) The non-current assets of the Board had improved by 48.8 per cent while the current assets had improved by 67.6 per cent. The non-current liabilities had increased by 116.1 per cent while the current liabilities had increased by 71 per cent. A sum of Rs.354 million had been spent on the construction and modernization of showroom under the non-current assets of the Board. Government grants amounting to Rs.107 million and a sum of Rs.300 million from the Bank of Ceylon through mortgaging the Laksala Building at Fort had been obtained under the non-current liabilities of the Board.
- (b) The current assets had increased by Rs.298 million and as such the balance of stocks had increased from Rs.246 million to Rs.551 million by a sum of Rs.305 million. Loan amounting to Rs.300 million had been obtained from commercial Banks in this connection.
- (c) The gross profit ratio indicated a high value of 66.4 per cent and 33.6 per cent of the sales income of goods had been paid to the suppliers of goods to the Board as the cost of sales. As such it had not made any encouragement to the handicraftsmen. The net profit ratio had been 1.9 per cent and 64.5 per cent of the sales income had been spent on the recurrent expenditure of the Board. The current ratio had been 1.01:01 and the quick ratio had been 0.28:1 and as such it was observed that the financial position of the Board is not satisfactory.





**(d) Unusual Increase in Expenditure**

The following observations are made.

- (i) The sales income of the year under review had improved by 40 per cent and the corresponding increases in the administration expenditure, distribution expenses and finance expenses had been 90 per cent, 81 per cent and 169 per cent respectively. Bank loans obtained for construction works had been the reason for the increase in finance expenses.
- (ii) Even though the main objective of the establishment of the Board is increasing the income of the handicraftsmen by expanding the production of handicrafts and improving the quality thereof, only a sum of Rs.235 million or 33 per cent of the sales income of the Board amounting to Rs.699.7 per cent had been paid to the producers. Out of the sales income of Rs.504 million for the preceding year, a sum of Rs.209 million or 41.5 per cent had been paid to the producers. As such an encouragement of the handicraftsmen had not been caused. Instead the recurrent expenditure of the Board had been unusually increase, while the 12.5 per cent net profit in the preceding year had decreased to 1.9 per cent.

**3.3 Legal Action instituted against or by the Institute**

Two former officers of the Board filed cases against the Board for dismissal from service claiming reinstatement and payment of arrears of salary or compensation of Rs.5 million.



## 4. Operating Review

### 4.1 Performance

The following observations are made.

- (u) The following deficiencies were observed between the targeted sales and the actual sales of the Thunmulla and other Branches for the year 2013.

Branches	Targeted Sales	Actual Sales	Difference	Percentage
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	Rs.'000	Rs.'000	Rs.'000	
Thunmulla	148,000	318,463	170,463	115
Fort	178,500	85,699	(92,801)	(52 )
Katubedda	17,200	30,123	12,923	75
Katunayaka	34,900	45,602	10,702	31
Kandy	63,000	24,735	(38,625)	(61)
Galle	29,400	40,149	10,749	37
Kurunegala	34,900	45,602	10,705	31
Battaramulla	24,400	20,986	(3,414)	(14)
New				
Branches (05)	10,450	47,539	37,089	355

The following observations are made in this connection.

- (i) Out of 13 Laksala Showrooms the expected sales targets of three showrooms had not been achieved.
- (ii) The sales income of the year under review amounted to Rs.688,112,358 and the sales income of the preceding year amounted to Rs.489,564,350. As such the sales income of the year under review, as compared with the preceding year, had improved by Rs.198,548,008 or 40.6 per cent.



#### 4.3 Uneconomic Transactions

The following observations are made.

- (ii) Incentives and overtime amounting to Rs.46,926,152 and Rs.31,725,549 respectively had been paid in the years 2013 and 2012 respectively. Even though the profit for the year under review, as compared with the preceding year, had decreased by 78 per cent the incentives and overtime had increased by 47.9 per cent.

The distribution among the staff the incentives paid in the year 2012 and the according to the information furnished to audit for the period up to May 2013 is given below.

Group of Officers	2012			Up to 30 May 2013		
	Number of Officers	Incentive Percentage	Earnings Percentage per Officer	Number of Officers	Incentive Percentage	Earnings Percentage per Officer
Board of Management	14	30	2.14	15	33	2.2
Sales Staff	104	52	0.50	100	53	0.53
Support Service	65	18	0.29	51	14	0.27

According to the above information a higher percentage of the incentive had been allocated to the Board of Management and had been distributed among the 14 officers representing that Board, as follows.



Officers	Number	Percentage
-----	-----	-----
Chairman, Chief Executive Officer	01	8.55
Other Chief Executive Officers	02	7.97
Directors, Sales / Stores / Purchase	03	6.00
Directors and Assistant Directors not directly related to sales	04	4.00
Instructors recruited on contract basis	04	3.50
	-----	-----
	14	30.00
	====	====

The following observations are made in this connection.

- (i) The Incentive Scheme had been implemented based on the monthly turnover and other than the turnover, attention had not been to the operating profit and the net profit. Higher incentives had been paid in the months in which a low operating profit had been earned or losses had been sustained. Even though an operating loss of Rs.61,346 had been incurred by May 2013, incentives amounting to Rs.2,792,000 had been paid for that month. As such the manner of determining targets for payment of incentives when a loss had been incurred is questionable in audit.
- (iii) Out of the total incentives paid, 53 per cent had been paid to 104 employees in operating grades who are directly involved in sales activities based on the achievement of target and attendance, 33 per cent of the incentives to 14 officers in the Board of Management based on a percentage of the turnover and 14 per cent of the incentives to 65 support services employees. As such it large scale discrepancies in the payment of incentives was observed.
- (b) Even though a sum of Rs.6,138,145 had been spent on the foreign tours of the officers of the Board, no foreign sales had materialized through the foreign tours in the year under review.



- (e) Despite the idling of the building complex at Katubedda, a building in Colombo had been procured on rent basis for a period of two years for office purposes. Sums of Rs.2,762,500 and Rs.1,350,443 had been paid during the year under review for rent and repairs respectively.
- (d) A loan of Rs.400 million had been obtained by mortgaging a building of the Board valued at Rs.497 million and a sum of Rs.354,092,338 out of that had been spent for the construction of showrooms on lands obtained on rent and carrying out repairs.

#### 4.3 Idle and Underutilised Assets

Even though the Handicrafts Training Division had been transferred to the National Crafts Council in the year 2009, the Carpentry Training Division had not been transferred to the National Crafts Council. As such, the three storeyed building of 20,000 square feet, the hostel with 40 twin beds, the Bag Manufacturing Centre Building of 8,000 square feet and tables and 80 chairs, log sawing machines and planing machines of which value could not be ascertained, had been idling and underutilized over a period of 03 years.

#### 4.4 Identified Losses

A physical test checks of the modernized Thunmulla Laksala Branch revealed that a sum of Rs.4,285,994 had been paid for works not executed.

#### 4.5 Staff Administration

The following observations are made.

- (a) According to the Circular No. DMS/G3/60/02 dated 21 December 2012 of the Department of Management Services permanent staff of 127 and contract based staff of 67 had been approved. But 90 contract basis staff had been recruited while the permanent staff had decreased to 91. As such 36 posts out of the permanent staff remained vacant and 23 employees had been recruited under contract basis exceeding the approved number. Thus it was observed in audit that salaries and allowances had been paid without approval to 23 contract employees.



- (b) Thirty three appointments had been made contrary to the above circular and the designations had been assigned as required. The manner of recruitment to those posts and the manner of determination of salaries and allowances to such employees had not been furnished to audit.
- (c) Even though the permanent staff of the Board is less than the approved staff, the voluntary retirement of permanent staff under a Voluntary Retirement Scheme not approved by the General Treasury is being further implemented.
- (d) After the retirement of the Chief Executive Officers of the Board in the permanent staff, they had been recruited on contract basis without the approval of the Cabinet of Ministers and without recruiting new officers for those posts.
- (e) The staff on contract basis had been paid lesser salaries and allowances outside the salaries and allowances approved by the circular.

## 5. Accountability and Good Governance

### 5.1 Presentation of Financial Statements

Even though the financial statements and the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days after the close of the year of accounts, the financial statements for the years 2013 had been presented only on 16 June 2014.

### 5.2 Internal Audit

Even though an Internal Audit Programme for the year 2013 had been prepared in terms of Section 13(5(d) of the Finance Act, No. 38 of 1971 internal audit had not been done according to the plan. Even though examinations to see whether the internal control systems of the Board are being successfully implemented and the examination of the financial statement including the vouchers relating to the day to day transactions should have been carried out to ensure the reliability of the accounts and other records an internal audit of the contentious matters such as the works and construction contracts and other sundry payments had not been carried out.



**5.3 Corporate Plan**

Even though the Board had prepared a Corporate Plan for the years 2011 to 2013, in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been prepared. The Corporate Plan had not been reviewed on a timely bases and updated.

**5.4 Procurement Plan**

A Procurement Plan had not been prepared for the year under review, in terms 01 sections 05 of the Public Enterprises Circular no PED 12 of 02 June 2013.

**5.5 Unsettled Audit Paragraphs**

The following observations are made.

(a) Obtaining Contracts from State Institutions for Laksala contrary to the approval of the Cabinet of Ministers

A sum of Rs.329 million had been spent up to the end of the year under review on activities not authorized under the Cabinet Memorandum No. 06/021/231/004 of 01 February 2006 and the National Crafts Council and Allied Institutions Act, No. 35 of 1982 as reported in the Report of the Auditor General for the year 2012.

Institution -----	Particulars -----	Status -----
Sri Jayawardhanapura Kotte Municipal Council	Installation of 20 Solar powered electrical lighting system at the Welikada Children's Park and the Municipal Council premises.	Solar power sets are not working due to substandard construction. Sri Jayawardhanapura Kotte Municipal Council had filed a case against Laksala in this connection.



Sri Lanka Broadcasting Corporation Construction of a Transmission Tower a Construction work had been stopped halfway. A letter indicating willingness to refund a sum of Rs.4,348,041 out of the advance obtained according to the agreement had been sent to the Chairman of the Sri Lanka Broadcasting Corporation on 10 July 2014.

- (b) Establishment of an Engineering Unit in Laksala and award of Internal and External Contracts to Contractors registered with the Board

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According to the decisions of the Board of Directors on the Board Papers No. 2010/01 an Engineering Unit had been established in the Laksala in October 2009 for carrying out engineering projects of any description as a profit centre and that had been suspended in April 2011. That had been restructured in accordance with the Board Paper No. 2011/29. The Board had decided to award all contracts to 04 registered contractors to award contracts or repairs to building contracts costing less than Rs.2.5 million to the private construction company established by converting the former Engineering Unit of the Laksala. The Board had also decided to obtain a profit percentage of 2 to 8 per cent of the income earned by them from external contracts and to delegate the powers of entering into contracts with the client institutions to the Chairman of the Laksala and the Secretary to the Board of Directors or the Director of Finance.

The following observations are made in this connection.

- (i) Even though agreements for all contract works had been entered into for execution by the Sri Lanka Handicrafts Board (Laksala) Engineering Unit, the Laksala did not have such a Unit or the human or physical resources with qualifications and capacity for such unit.





- (ii) The accepted methodology had not been followed in the registration of the 04 contractors and none of those institutions had been registered under the Institute of Construction Training and Development.
  - (iii) Even though all contract had been executed in the name of the Laksala, the accounts in that connection had not been disclosed in the financial statements of the Laksala.
- (c) Failure to take Action for the Transfer of Crafts Training Division to the National Crafts Council
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The following observations are made.

- (i) According to the decision of the Cabinet of Ministers on the Cabinet Memorandum No. 08/2322/349/015 dated 08 December 2008, it had been decided to transfer the Crafts Training Division which functioned under the Sri Lanka Handicrafts Board to the National Crafts Council, those activities had not been finalized even by the end of the year 2013. According to the Letter No. 3/4/2/46 dated 06 April 2009 of the Secretary to the Ministry of Rural Industries and Self Employment Promotion, action had been taken to transfer 189 employees, 03 motor vehicles and 132 Crafts Training Centres of the Crafts Training Division of the Sri Lanka Handicrafts Board to the National Crafts Council from 01 May 2009. Out of those, 70 buildings belonged to the Board. Even though the equipment, machinery, tools and implements and 03 motor vehicles had been handed over to the officers of the National Crafts Council, the value thereof had not been computed and transferred even up to the date of audit.



- (ii) The position with regard to (i) above had not been disclosed in the financial statements for the years 2010 and 2011. The balances shown under the Crafts Training Division in the financial statements for the year 2009 had been included as the balances as at 31 December 2012 in the financial statements for the 2012. Even though those had been eliminated from the statement of financial position as at 31 December 2013 and shown as a Note, action had not been taken to rectify that.

## **6. Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Internal Control
- (c) Contract Administration
- (d) Financial Control
- (e) Human Resources Management
- (f) Stock Control

W.P.C.Wickramaratne  
Acting Auditor General

