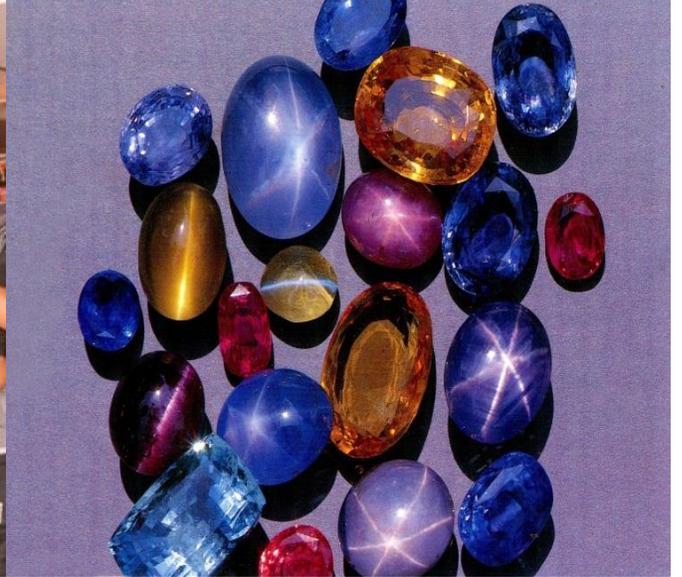


லார்கீக லார்கால
வருடாந்த அறிக்கை
Annual Report

2014



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இலங்கை கைப்பணிப்பொருட்கள் சபை
SRI LANKA HANDICRAFTS BOARD

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Contents

Page No

Corporate information	02
Branches/ Regional Office Net Work	03
Vision & Mission	04
Chairman and CEO's Review	05 - 10
Board of Directors	11
Senior Management Team	12

Financial Statements

Statement of Financial Position	14
Statement Comprehensive Income	15
Statement of Cash Flow	16
Statement of Changes in Equity	17
Statement of Comprehensive Income – Revenue	18
Statement of Financial Position - Assets	19
Notes to the Financial Statements	20 - 28
Statement of Comprehensive Income – Project	29
Statement of Financial position – Assets	30
Notes to the Financial Statements – Project	31 - 34
Statement of Financial Position Ape Gama	35
Statement of Comprehensive Income Revenue – Ape Gama	36
Notes to the Financial Statements – Ape Gama	37 - 38
Account policies	39 - 50
Statement of Financial Position Assets – Craft Training	51
General's Report	52 - 69

SHOWROOM NET WORK

Laksala Outlets		Telephone
Fort	No: 60, York Street, Colombo 01	0112323514
Thummulla	No.215, Bauddhaloka Mw, Thummulla, Colombo 07	0112580579/5846168
Kandy	No.05, Sangaraja Mw, Kandy	0812222087
Katubedda	No.282, Galle Road, Katubedda, Moratuwa	0112605600
Museum	Museum Gallery Café, National Museum Premises, Colombo 07	0112698263
Battaramulla	Janakala Kendraya, Pelawatta, Battaramulla	0112786026
Race Course	Mini Stand, Race Course Promenade, Reid Avenue, Colombo 07	0112677772
Welipenna 1	Welipenna Stopover, Southern Expressway, Service Area "A" Shop A4 & A5	0342241607/8
Welipenna 2	Welipenna Stopover, Southern Expressway, Service Area "B" Shop A5 & A6	0342241620/21
Galle	No.74/1, Galle Road, Galle	0912222783
Pinnawala	Elephant Orphanage, (At the Exit) Pinnawala	0352256015
Peradeniya	No.14, Botanical Garden, Peradeniya	0812389253/2389263
Katunayake	54D Departure Transit Area, Bandaranayake International Airport, Katunayake	0112260167
Wagolla	Pinnawala Zoological Garden, Rabukkana, Pinnawala	0352264755

CORPORATE INFORMATION

NAME OF THE BOARD

Sri Lanka Handicrafts Board

LEGAL FORM

Statutory Board incorporated by National Crafts Council & Allied to Institutions Act No.35 of 1982

HEAD OFFICE

No.215, Baudhaloka Mawatha, Colombo 07.

Phone : 011 2055717 / 011 2055501

Fax : 011 2594872 / 011 2680928

E-Mail : info@laksala.gov.lk

Website : www.laksala.lk

SALES INQUIRIES

Phone : 011 2680925

E-Mail : info@laksala.gov.lk

AUDITORS

Auditor General's Department

BANKERS

Bank Of Ceylon

Peoples Bank

SRI LANKA HANDICRAFTS BOARD

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 2014. 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 Allied 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 6000 or thereabout in the year 2013 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 Appointments

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 sales facilities via internet

During the year 2014 too Laksala implemented methods more extensively in such a manner as to enable its customers world over to have access into online internet trading facilities for purchasing the items of their choice from anywhere in the world through electronic technology.

Robust financial activities

Our financial operations and productivity clearly reflect the results of the overall measures that were undertaken by us during the year 2014. During this year we have achieved a sales income of Rs. 823,392,392/- and it is an increase of Rs. 135.3 million or 19.7% compared to the year 2013.

Results Achieved

Sales income of Rs. 688.1 million in the year 2013 increased to Rs. 823.4 million in the year 2014 and it shows a growth of 19.7% as against the year 2013. This sales income yield has returned a net profit of Rs. 20.5 million before tax. To lay claim on this achievement during the year 2014 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 2014, the number of registered suppliers actively engaged in supplying goods to Laksala was over 6,000.

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/-
2014	Rs.377,403,777/-

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 200 personnel, details of which are as follows:

<u>Category of Employees</u>	<u>Total Strength</u>	
	Fixed	Contract
01. Executive Staff	08	02
02. Staff related to Sales	44	68
03. Other Staff (Supportive Services)	36	42
Total	<u>88</u>	<u>112</u>
		<u>200</u>

The staff strength in comparison to the previous year has been decreased from 181 to 200.

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.

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 within next few years.



Anil Koswatta
Chairman / Chief Executive Officer

MEMBERS OF THE BOARD

FOR THE YEAR 2014

Name of the Board Member	Designation	Appointed
Mr. Anil Koswatte	Chairman/CEO	January to December 2014
Board of Director	Designation	
Dr.Nalaka Godahewa	Board Member	January to February 2014
Mr. Damitha Kumarasinghe	Board Member	January to December 2014
Mrs. Iresha Bandara	Board Member	January to December 2014
Mr. Vajira Wicramasinghe	Board Member	January to February 2014
Mr. W.A.D. Rajapaksha	Board Member	January to December 2014
Mr. Rakitha Abyegoonawardhana	Board Member	March to December 2014
Mr. Shanthi Deva Herath	Board Member	March to December 2014
Mr. Upali Gamage	Board Member	March to December 2014
Mr. S. Deniyawatta	Board Member	January to December 2014

Senior Management

Mrs. L.M.E. Perera	Chief Operations Officer
Mrs. Rohini Perera	Director (Finance)
Mr. C.N. Dahanayake	Director (Personal & Administration)
Mr. Kelum Jayawardhana	Director (Sales)
Mr.J.K.D.S.K.Jayaneththi	Chief Internal Auditor
Mr. A.U.D. Perera	Project Officer
Mrs. Devika Kumari	DeputyDirector (Distribution)
Mrs. Vajira Samararathne	Deputy Director (Procurement)
Mr.Sampath Senevirathne	Assistant Director (Product Development)
Mr.J.D.Harischandra	Assistant Director

Financial Statements

SRI LANKA HANDICRAFTS BOARD							
STATEMENT OF FINANCIAL POSITION							
As at 31st December 2014							
		Laksala Showrooms		Projects	Ape Gama		
	Notes	2014	2013	2014	2014	Total 2014	Total 2013
		LKR	LKR	LKR	LKR	LKR	LKR
ASSETS							
Property, Plant & Equipment		1,103,205,564	1,090,830,704	63,037,977	27,054,071	1,193,297,612	1,153,867,191
Non-current assets		1,103,205,564	1,090,830,704	63,037,977	27,054,071	1,193,297,612	1,153,867,191
Inventories	7	536,941,393	547,391,810	733,583	136,063	537,811,039	551,260,640
Trade Deb. & Other Receivable	8	135,587,567	154,234,702	16,313,089	4,748,520	156,649,176	179,267,863
Cash & Cash Equivalents	9	27,130,270	8,069,268	230,137		27,360,407	8,384,104
Current assets		699,659,230	709,695,780	17,276,809	4,884,583	721,820,622	738,912,607
Total assets		1,802,864,794	1,800,526,484	80,314,786	31,938,654	1,915,118,234	1,892,779,798
EQUITY AND LIABILITIES							
CAPITAL AND RESERVES							
Stated Capital		73,628,878	73,628,878	-		73,628,878	73,628,878
Capital Reserves		510,806	510,806	-		510,806	510,806
Revaluation Reserves		434,903,833	434,903,833	21,164,824		456,068,657	456,068,657
Grants Received		62,000,000	62,000,000	41,951,172		103,951,172	103,951,172
Profit & Loss		18,988,545	6,779,824	(38,887,055)	(6,280,972)	(26,179,482)	(33,482,473)
Total capital & reserves		590,032,062	577,823,341	24,228,941	(6,280,972)	607,980,031	600,677,040
Retirement Benefit Obligations		24,143,355	22,703,097			24,143,355	22,703,097
Deferred Tax Liabilities		26,731,698	21,677,208			26,731,698	21,677,208
Deferred Income		201,544,700	180,747,327			201,544,700	180,747,327
Loan		545,144,546	401,179,493			545,144,546	403,214,628
Non-current liabilities		797,564,299	626,307,124	-	-	797,564,299	628,342,259
Creditors and Accruals	10	252,458,756	352,112,270	56,085,845	38,219,626	346,764,227	419,476,750
B.O.C Loan - Short Term		152,945,098	234,655,494			152,945,098	234,655,494
Bank Overdraft	11	9,864,580	9,628,255			9,864,580	9,628,255
Current liabilities		415,268,434	596,396,019	56,085,845	38,219,626	509,573,905	663,760,499
Total equity & liabilities		1,802,864,794	1,800,526,484	80,314,786	31,938,654	1,915,118,234	1,892,779,798
<p>..... Mrs. S.R.M. Perera Director Finance</p> <p>The Directors are responsible for the fair presentation & preparation of Financial statements signed for & on behalf of the Board meeting held on</p> <p>..... Mr. Abeeth Dangalla Chairman</p> <p>..... Ms. L.M.E. Perera Chief Operating Officer</p> <p>..... Board Director</p>							

STATEMENT OF							
COMPREHENSIVE INCOME 2014							
For the year ended 31st December		Laksala Showrooms		Ape Gama	Projects	Total	Total
	Note	2014	2013	2014	2014	2014	2013
		LKR	LKR	LKR	LKR	LKR	LKR
Revenue							
Local	1	823,392,392	688,112,358	48,422,794	9,223,948	881,039,134	699,744,511
Export					-		
		823,392,392	688,112,358	48,422,794	9,223,948	881,039,134	699,744,511
						-	
Cost of Sales		(304,759,116)	(227,039,653)		(7,408,081)	(312,167,197)	(235,050,356)
GROSS PROFIT/(LOSS)		518,633,276	461,072,705	48,422,794	1,815,867	568,871,937	464,694,155
Grants Received		25,340,000	16,515,298			25,340,000	16,515,298
Other Income	2	16,945,313	16,993,569		5,452,300	22,397,613	20,277,214
Administrative Expenses	3	(398,303,091)	(359,918,584)	(45,708,663)	(5,399,318)	(449,411,072)	(365,508,632)
Distribution Cost	4	(60,463,600)	(47,489,083)	(8,995,103)	(487,213)	(69,945,916)	(48,375,042)
Export Expenses	5	(1,077,430)	(1,534,323)		-	(1,077,430)	(1,534,323)
Result from operating activities		101,074,467	85,639,582	(6,280,972)	1,381,636	96,175,131	86,068,670
						-	
Finance Cost	6	(80,616,126)	(62,178,283)		(6,395)	(80,622,521)	(62,187,070)
Profit before tax		20,458,341	23,461,300	(6,280,972)	1,375,241	15,552,610	23,881,600
Tax expense		(8,249,620)	(10,138,920)			(8,249,620)	(10,138,920)
Profit/Loss for the year		12,208,721	13,322,380	(6,280,972)	1,375,241	7,302,990	13,742,680

STATEMENT OF CASH FLOWS			
For the year ended 31st December 2014			
	2014		2013
	LKR		LKR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit after tax expense-Laksala	12,208,721		13,322,380
Net profit/Loss after tax expense-Project	1,375,241		-
Net profit/Loss after tax expense-Apegama	(6,280,972)		420,300
Net profit after tax expense	7,302,990		13,742,680
ADJUSTED FOR			
Depreciation	42,571,984		20,988,590
Operating Profit/Loss before working capital changes	49,874,975		34,731,270
CHANGES IN			
Inventories	13,449,601		(305,107,190)
Trade & Other Receivables	22,618,687		(12,515,786)
Trade & Other Payables	(74,526,653)		645,959,439
	11,416,610		363,067,733
CASH FLOW FROM INVESTING ACTIVITIES			
Realization of Investment	44,862,328		-
Purchase of property,Plant & Equipment	(83,676,334)		(396,716,019)
Net. Cash flows used in investing activities	(38,814,006)		(396,716,019)
CASH FLOW FROM FINANCING ACTIVITIES			
Special Grants received	46,137,374		50,000,000
Net. Cash flows used in investing activities	46,137,374		50,000,000
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	18,739,978		16,351,714
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	(1,244,151)		(17,595,866)
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	17,495,827		(1,244,152)
Bank Overdraft	(9,864,580)		(9,628,255)
Cash in Hand & at Bank	27,360,407		8,384,104
	17,495,827		(1,244,151)

SRI LANKA HANDICRAFT BOARD									
STATEMENT OF CHANGES IN EQUITY									
FOR THE YEAR ENDED 31ST DECEMBER 2014	STATED CAPITAL LKR	CAPITAL RESERVES LKR	REVALUATIONS RESERVES LKR	GRANT LKR	PROFIT & LOSS LKR	TOTAL LKR			
BALANCE AS AT 1ST JANUARY 2013	73,628,878	510,806	456,068,657	53,951,172	(47,225,154)	536,934,359			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						-			
CHANGES DURING THE YEAR				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			
PROFIT FOR THE YEAR 2014-APE GAMA									
BALANCE AS AT 31ST DECEMBER 2013	73,628,878	510,806	456,068,657	103,951,172	(33,482,474)	600,677,039			
BALANCE AS AT 1ST JANUARY 2014	73,628,878	510,806	456,068,657	103,951,172	(33,482,474)	600,677,039			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						-			
CHANGES DURING THE YEAR						-			
PROFIT FOR THE YEAR 2014-LAKSALA					12,208,721	12,208,721			
PROFIT FOR THE YEAR 2014-PROJECT					1,375,241	1,375,241			
PROFIT FOR THE YEAR 2014-APE GAMA					(6,280,972)	(6,280,972)			
BALANCE AS AT 31ST DECEMBER 2014	73,628,878	510,806	456,068,657	103,951,172	(26,179,484)	607,980,029			

STATEMENT OF COMPREHENSIVE INCOME			
For the year ended 31st December		Laksala Showrooms	
	Note	2014	2013
		LKR	LKR
Revenue			
Local		823,392,392	688,112,358
Export			
		823,392,392	688,112,358
Cost of Sales		(304,759,116)	(227,039,653)
GROSS PROFIT/(LOSS)		518,633,276	461,072,705
Engineering Services			
Grants Received		25,340,000	16,515,298
Other Income		16,945,313	16,993,569
Administrative Expenses		(398,303,091)	(359,918,584)
Distribution Expenses		(60,463,600)	(47,489,083)
Export Expenses		(1,077,430)	(1,534,323)
Result from operating activities		101,074,467	85,639,582
Finance Costs		(80,616,126)	(62,178,283)
profit before tax		20,458,341	23,461,300
Tax expense		(8,249,620)	(10,138,920)
Profit/(Loss) for the Period		12,208,721	13,322,380

As at 31st December 2014	Laksala Showrooms	
	2014	2013
	LKR	LKR
ASSETS		
Property, Plant & Equipment	1,103,205,564	1,090,830,704
Non-current assets	1,103,205,564	1,090,830,704
Inventories	536,941,393	547,391,810
Trade Debtors & Other Receivables	135,587,567	154,234,702
Cash & Cash Equivalents	27,130,271	8,069,268
Current assets	699,659,231	709,695,780
TOTAL ASSETS	1,802,864,795	1,800,526,484
EQUITY & LIABILITIES		
CAPITAL & RESERVES		
Stated Capital	73,628,878	73,628,878
Capital Reserves	510,806	510,806
Revaluation Reserves	434,903,833	434,903,833
Grants Received	62,000,000	62,000,000
profit & loss	18,988,545	6,779,824
Total capital & reserves	590,032,062	577,823,341
Retirement Benefit Obligations	24,143,355	22,703,097
Deferred Tax Liabilities	26,731,698	21,677,208
Deferred Income	201,544,701	180,747,327
Loan	545,144,546	401,179,493
Non-current liabilities	797,564,299	626,307,124
Creditors and Accruals	252,458,756	352,112,270
B.O.C Loan - Short Term	152,945,098	234,655,494
Bank Overdraft	9,864,580	9,628,255
Current liabilities	415,268,434	596,396,019
Total Equity & Liabilities	1,802,864,795	1,800,526,484

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01-SALES ANALYSIS

	2014	2013
	Rs:	Rs:
Laksala Branches	ORIGINAL	
Fort	51,579,688	85,698,913
Kandy	24,123,518	24,734,806
Galle	57,533,096	40,149,330
Nuwara Eliya		69,387
Thummulla	343,136,567	318,462,761
Katubadda	25,808,935	30,122,835
Katunayaka	38,094,616	45,602,178
Battaramulla	37,995,011	20,986,139
Racecourse	16,326,372	21,485,194
Welipenna - 1	16,344,671	18,022,753
Musium	104,381,280	34,551,150
K Zone	2,432,282	6,107,224
Pinnawala	22,512,999	15,336,208
Welipenna - 2	15,232,184	15,037,275
Peradeniya	66,297,160	2,133,773
Direct Sales	1,594,013	9,612,433
Total	823,392,392	688,112,358

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

NOTE 02-OTHER INCOME

	2014	2013
	Rs:	Rs:
Ape Gama		7,851,798
Special Sales	1,227,946	2,308,790
Other Income	15,183,481	6,091,401
Circuit Reservation	128,886	120,580
Miscellaneous Income	405,000	621,000
	16,945,313	16,993,569

NOTE TO THE FINANCIAL STATEMENTS**NOTE 03-ADMINISTRATIVE EXP**

	2014	2013
	LKR	LKR
Salaries & Allowance	74,830,569	61,101,692
Over Time	10,763,631	15,372,830
Consultancy Fees	52,750	1,486,911
Incentive	32,091,600	31,553,322
Bonus	3,982,038	
E.P.F. & E.T.F.	8,750,668	8,324,768
Gratuity	3,096,886	1,128,694
Staff Welfare	12,201,686	9,960,510
Uniforms & ID	262,770	221,878
Travelling Allowance	10,340,750	3,828,185
Staff Training	491,268	161,091
Medical Expenses	1,846,186	1,105,691
Directors Fees & Board Meeting Expenses	1,296,017	1,322,666
Audit Fees	300,000	250,000
Legal Fees	1,741,336	1,206,072
Advertisement	8,443,195	15,558,718
Security Service	26,427,156	23,455,718
Printing & Stationery	5,754,413	6,736,160
News Papers & Periodicals	39,787	22,133
Postage/Tele/Telex	14,267,821	10,172,362
Fuel & Lubricants	2,553,113	3,375,684
Stock Verification	740,447	515,776
Trade Licence Fees	544,784	209,825
Computer Expenses	3,769,535	1,580,716
Parking	906,943	570,704
Rent & Rates	39,025,067	36,421,544
Insurance	1,298,256	778,509
Water Bill	1,365,942	975,722
Electricity	31,852,563	24,859,008
Rep & Maint - Building	5,722,625	6,139,412
Rep & Maint - Machinery	1,495,742	782,432
Vehicle Overheads	21,571,377	24,829,107
Deperciaton	22,909,533	16,622,287
Amotization- Building	22,309,538	20,881,600
Cleaning Services	11,596,589	8,028,593
VRS	1,654,846	3,093,187
Concession Fees	5,415,367	3,754,726
Tender Expenses		52,500
Openning Ceromany Expenses	6,483,080	6,352,628
Ape Gama Expenses		4,735,679
Payee Expenses		2,389,544
Stamp Fees	107,220	
	398,303,091	359,918,584

NOTES TO THE FINANCIAL STATEMENTS

NOTE 04-VARIABLE DISTRIBUTION CO	2014	2013
	LKR	LKR
Commission & Discount	22,082,948	13,703,130
Sponsorship	6,611,428	5,170,745
Packing Materials Locals	16,311,441	12,004,538
Business Promotion	10,500,522	12,677,189
Rep.& Main.Purchase Goods	357,918	65,458
Transport	4,599,344	3,868,024
	60,463,600	47,489,083

NOTE 05-EXPORT EXPENSES	2014	2013
	LKR	LKR
Insurance & Freight Charges	976,719	1,534,323
Others	100,711	
	1,077,430	1,534,323

NOTE 06-FINANCE COST	2014	2013
	LKR	LKR
Overdraft Interest	2,052,044	3,372,529
Bank Charges	1,602,968	312,013
Loan Interest	76,961,114	58,493,740
	80,616,126	62,178,283

SRI LANKA HANDICRAFTS BOARD									
NOTES TO THE FINANCIAL POSITION									
NOTE 3-2. PROPERTY PLANT & EQUIPMENT									
As at 31st December	Land	Buildings	Plant & machinery	Furniture, fittings & office equipment	Computer Hardware Software	Inventory Article	Capital work-in progress	Lease Building	Total
Cost or Deemed Cost	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance at 1 January 2013	395,520,000	135,109,264	27,237,724	20,208,966	13,500,252	12,547,574	123,122,952	666,662	727,913,394
Additions/Revaluation		21,693,313	46,434,719	30,700,527	10,386,657	9,316,770			118,531,986
Disposals									
Transfers from W.I.P.							(56,492,973)		(56,492,973)
Balance at 31 December 2013	395,520,000	156,802,577	73,672,443	50,909,493	23,886,909	21,864,344	66,629,979	666,662	789,952,408
Balance at 1 January 2014	395,520,000	156,802,577	73,672,443	50,909,493	23,886,909	21,864,344	66,629,979	666,662	789,952,407
Additions/Revaluation		40,576,334	7,945,433	6,038,664	3,724,354	1,707,811	23,683,738		83,676,334
Disposals							(44,862,328)		(44,862,328)
Transfers from W.I.P.									
Balance at 31 December 2014	395,520,000	197,378,910	81,617,876	56,948,157	27,611,263	23,572,155	45,451,390	666,662	828,766,413
Depreciation	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
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	4,118,433	3,256,791	4,005,359	1,650,611			16,622,288
Disposals									
Balance at 31 December 2013	0	3,591,093	14,010,765	5,543,924	5,930,127	3,256,533	0	0	32,332,443
Balance at 1 January 2014		3,591,093	14,010,765	5,543,924	5,930,127	3,256,533	0	0	32,332,442
Charge for the year		4,789,567	6,122,026	4,720,709	3,699,652	3,577,579			22,909,533
Disposals									
Balance at 31 December 2014	0	8,380,660	20,132,791	10,264,633	9,629,779	6,834,112	0	0	55,241,975
Carrying Amounts	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
At 1 January 2013	395,520,000	135,109,264	17,345,392	17,921,833	11,575,484	10,941,652	123,122,952	666,662	712,203,239
At 31 December 2013	395,520,000	153,211,484	59,661,678	45,365,569	17,956,782	18,607,811	66,629,979	666,662	757,619,965
At 1 January 2014	395,520,000	153,211,484	59,661,678	45,365,569	17,956,782	18,607,811	66,629,979	666,662	757,619,965
At 31 December 2014	395,520,000	188,998,250	61,485,085	46,683,524	17,981,484	16,738,043	45,451,390	666,662	773,524,439
Development of Building									372,872,263
Amortization									(43,191,138)
									1,103,205,564

NOTES TO THE FINANCIAL STATEMENTS		
NOTE 07-STOCKS	2014	2013
	Rs:	Rs:
Fort	21,171,901	26,990,968
kandy	9,822,023	11,995,408
Galle	25,842,625	27,076,885
Battaramulla	57,567,049	57,068,527
Thummulla	150,845,343	143,189,042
Katubadda	15,252,732	16,882,509
Katunayaka	13,371,627	14,098,574
Warehouse Fort		6,500,317
Race Course	22,625,700	27,140,923
Main Warehouse-Katubedda	5,529,841	11,862,028
Museum	148,403,088	149,149,910
Welipenna 1	11,121,343	10,275,418
Welipenna 2	9,469,437	9,623,355
K Zone		12,815,000
Peradeniya	17,183,834	6,227,665
Pinnawala	8,213,926	9,338,286
Norris Canal w/house	15,939,775	12,729,315
Katubedda w/h Repair Items	292,016	
Norris Canal w/house Repair Items	2,294,793	
Piinawala-Wagolla	2,884,554	
New Design Center	351,750	
Thummulla W/H	7,824,043	
Supplier Return W/H-Norris	164,758	
Intransit	2,809,628	
Product Development	94,048	
Special Order W/H	285,298	
Damages	(1,848,294)	(5,572,319)
Shortage	(10,571,444)	
	536,941,393	547,391,810

NOTE 08-TRADE DEBTORS,DEPOSITS & PREPAYMENTS		
	2014	2013
	Rs:	Rs:
Trade Debtors	12,733,484	27,991,534
Receivable Credit Card	2,365,590	8,843,229
Festival Loans	154,800	152,500
Staff Loan	1,374,175	180,500
Receivable Rent	2,444,304	1,133,557
Security Deposit (Parking)	1,799,424	1,799,424
Prepayment	18,419,527	37,084,578
Purchase Advance Merchandise		
Purchase Advance Non Merchandise	6,401,918	11,837,868
Damages or Repair/Stock Variance	12,419,738	5,572,319
Small Industries		5,849,758
Retention Money		15,020
Rent Deposit in Advance		3,080
Supplier N.S.B		9,000
Project C/A	28,053,716	33,872,693
Ape Gama C/A	38,047,822	
Creditors - Bambalapitiya		1,299,480
W & O P		77,993
Bank Loan Deduction		(37,753)
Refundable Deposit	8,568,982	9,111,484
W.& O.P	77,993	
Bank Gurantee	2,726,095	9,438,438
	135,587,567	154,234,702

NOTE 09- CASH & CASH EQUIVALENTS	2014	2013
	Rs:	Rs:
046-1001-8-0387264		
0002026526	1,401,005	796,773
Cash at Bank - Kandy	1,341,285	639,209
Cash at Bank - Galle	523,936	751,645
Cash at Bank - N'Eliya	1,719	10,719
Cash at Bank - Moragalla		481,564
Cash at Bank - Thummulla	938,606	91,456
Cash at Bank - Battaramulla	177,240	473,916
Cash at Bank - Galadari S.P.U	25,041	25,041
Cash at Bank - 2026716	14,803,287	
Cash at Bank - Katunayaka	238,635	659,728
Cash at Bank - section C	3,136,140	33,291
Cash at Bank - Katubadda	420,180	451,292
Cash at Bank - Molgagoda	27,593	27,593
Cash at Bank - NRFC	600,262	282,684
Cash at Bank - Museum	594,583	327,579
Cash at Bank - Welepenna	571,656	512,327
Cash at Bank - Tape Lace	145,161	145,161
Cash in Hand - Fort	214,072	122,140
Cash in Hand - Kandy	151,630	109,775
Cash in Hand - Galle	133,061	129,421
Cash in Hand - Race Course	102,300	164,300
Cash in Hand - Katunayaka	120,373	123,887
Cash in Hand - Thummulla	687,666	772,750
Cash in Hand - Battaramulla	63,510	132,639
Cash in Hand - Katubadda	105,080	115,370
Cash in Hand - Welipanna	254,813	114,748
Cash in Hand -Museum	137,010	131,640
Cash in Hand -K Zone		78,555
Cash in Hand -Pinnawala	39,008	43,776
Cash in Hand -Peradeniya	175,420	320,289
	27,130,270	8,069,268

NOTE 10-CREDITORS & ACCRUALS	2014	2013
	Rs:	Rs:
Ministry of T&R Ind.Development	6,571,317	11,086,175
Trade Creditors	193,975,264	236,990,506
Accrued Charges	22,795,973	16,475,847
Other Creditors	23,311,202	84,042,742
Refundable Tender Deposit & Other Dep	805,000	55,000
General Treasury Fund		1,362,000
Debtors-Bambalapitiya		2,100,000
Benevolent Fund	5,000,000	
	252,458,756	352,112,270
NOTE 11-BANK OVERDRAFT	2014	2013
	Rs:	Rs:
Cash at Bank - 2026716		481,606
Cash at Bank - section A	3,463,740	2,461,578
Cash at Bank - BOC 2758815	4,037,709	5,865
Cash at Bank - NRFC		
Cash at Bank - 6591	2,363,131	6,679,206
	9,864,580	9,628,255

STATEMENT OF COMPREHENSIVE INCOME

PROJECT

For the year ended 31st December 2014

	Note	2014 LKR	2013 LKR
Revenue		9,223,948	11,632,153
<u>Cost of Sales</u>	<u>02</u>	<u>(7,408,081)</u>	<u>(8,010,450)</u>
GROSS PROFIT/(LOSS)		1,815,867	3,621,450
Other Income		5,452,300	3,283,645
Administrative Expenses	03	(5,399,318)	(5,590,048)
Distribution Cost	04	(487,213)	(885,959)
<u>Finance Cost</u>	<u>05</u>	<u>(6,395)</u>	<u>(8,787)</u>
<u>Result form operating activities</u>		<u>1,375,241</u>	<u>420,301</u>
<hr/> <u>Profit for the year</u>		<u>1,375,241</u>	<u>420,301</u>

Statement of Financial Position

As at 31st December 2014

Project	Note	2014 LKR	2013 LKR
ASSETS			
Property, Plant & Equipment		63,037,977	63,036,487
Non-current assets		63,037,977	63,036,487
Inventory	06	733,583	3,868,830
Trade Debtors & Other Receivables	07	16,313,089	17,712,719
Cash & Cash Equivalents	08	230,137	314,836
Current assets		17,276,809	21,896,385
TOTAL ASSETS		80,314,786	84,932,872
EQUITY			
Revaluation Reserve		21,164,824	21,164,824
Grants Received		41,951,172	41,951,172
Retained earning		(38,887,055)	(40,262,297)
Total equity		24,228,941	22,853,699
Other Creditors		2,035,135	2,035,135
Non-current liabilities		2,035,135	2,035,135
Creditors and Accruals	09	54,050,710	60,044,038
Bank Overdraft	10	-	-
Current liabilities		54,050,710	60,044,038
TOTAL EQUITY & LIABILITIES		80,314,786	84,932,872

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

NOTE 02-COST OF SALES

	2014 RS.	2013 RS.
Stock as at 01-01-2014	1,222,888	1,023,900
Add: Good Transfer»	6,545,993	8,209,691
	<u>7,768,881</u>	<u>9,233,591</u>
Less: Stock as at 31-12-2014	(360,800)	(1,222,888)
	<u>7,408,081</u>	<u>8,010,703</u>

NOTE 03-ADMINISTRATIVE EXPENSES

Salaries & Allowances	2,462,857	3,158,880
Incentive & Overtime	199,359	491,579
E.P.F & E.T.F	331,082	360,791
Electricity	156,796	130,167
Postal Chages	11,010	
Water	25,780	44,004
Staff Welfare	101,751	171,822
Security	1,516,079	725,900
Keselwatta Expenses		52,948
Postage & Telephone	12,741	34,675
Medical	120,516	35,937
Printing	53,935	50,895
Rent & Rates	9,000	14,712
Transport	81,000	73,500
Cleaning	316,992	244,239
Others	420	
	<u>5,399,318</u>	<u>5,590,048</u>

NOTE 04-DISTRIBUTION COST

R/M - Machinery	34,485	134,181
R/M - Building	205,620	254,931
Travelling	247,108	496,847
	<u>487,213</u>	<u>885,959</u>

NOTE 05-FINANCE COST

Bank Charges	6,395	8,787
	<u>6,395</u>	<u>8,787</u>

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

2014

2013

Rs:

Rs:

NOTE 06-STOCKS

Project Katubadda

733,583

3,868,830

733,583

3,868,830

NOTE 07-TRADE DEBTORS & OTHER RECEIVABLES

Trade Debtors - Project Katubadda

4,234,503

5,634,133

Security Deposit

76,022

76,022

Retention Money

12,002,564

12,002,564

16,313,089

17,712,719

NOTES TO THE FINANCIAL STATEMENTS

2014

2013

Rs:

Rs:

NOTE 08-CASH & CASH EQUIVALENTS

Project Waragoda

Project Katubadda

Project Keselwatta

Project bag center

94,558

162,512

135,579

152,324

230,137

314,836

NOTE 09-CREDITORS & ACCRUALS

Accrued Charges - Project - Katubadda

529,464

703,816

Special Grant

25,467,530

25,467,530

Project C/A

28,053,716

33,872,692

Other Creditors

-

2,035,135

54,050,710

60,044,038

Manufacturing Account - Project Division

For the year ended 31st December 2014

	Note	2014 LKR	2013 LKR
RAW MATERIALS			
Stock as at 01/01/2014		1,619,942	2,281,781
Purchases		976,535	4,393,514
		<u>2,596,477</u>	<u>6,675,295</u>
Less			
Stock as at 31/12/2014		(344,783)	(1,619,942)
		<u>2,251,694</u>	<u>5,055,353</u>
ADD			
Direct Expenses		753,315	136,840
Contract Labour			
Prime Cost		<u>3,005,009</u>	<u>5,192,193</u>
ADD			
Factory Overheads	01	2,542,984	3,416,648
		<u>5,547,993</u>	<u>8,608,841</u>
Add:WIP as at 01/01/2014		1,026,000	626,850
Less:WIP at at 31/12/2014		(28,000)	(1,026,000)
		<u>6,545,993</u>	<u>8,209,691</u>

SRI LANKA HANDICRAFTS BOARD

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01-FACTORY OVERHEAD	2014	2013
	Rs:	Rs:
Salary	1,641,905	2,105,920
Overtime		
E.P.F & E.T.F	220,725	240,527
Electricity	235,193	195,251
Repair & Main. -Machinery		
-Building		
-Vehicle		
Commission & Discount		
Incentive	132,906	327,719
Newspapers & Periodicals		
Water	17,188	29,336
Insurance		
Staff Welfare	67,834	114,548
Security		
Staff Training		
Postage & Telephone	8,494	23,116
Other		
Medical		
Printing		
Rent & Rates		
Transport	54,000	49,000
Travelling	164,739	331,231
Warrant		
Fuel & Lubricants		
Publicity		
Bank Charges		
Entertainment		
	2,542,984	3,416,648

STATEMENT OF		
FINANCIAL POSITION		
As at 31st December 2014		
APE GAMA		
	Note	2,014
		LKR
ASSETS		
Property, Plant & Equipment		27,054,071
Non-current assets		27,054,071
Inventories		136,063
Trade Deb. & Other Receivables		4,748,520
Cash & Cash Equivalents		
Current assets		4,884,583
Total assets		31,938,654
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Stated Capital		
Profit & Loss		(6,280,972)
Total capital & reserves		(6,280,972)
Creditors and Accruals		38,219,626
Current liabilities		38,219,626
Total equity & liabilities		31,938,654

STATEMENT OF COMPREHENSIVE INCOME		
For the year ended 31st December		APE GAMA
	Note	2014 LKR
Revenue		
Income	12	48,422,794
		48,422,794
Cost of Sales		
GROSS PROFIT/(LOSS)		48,422,794
Administrative Expenses	13	(45,708,663)
Distribution Cost	14	(8,995,103)
Result from operating activities		(6,280,972)
profit before tax		(6,280,972)
Profit/Loss for the year		(6,280,972)

NOTES TO THE FINANCIAL STATEMENTS	Ape Gama
NOTE -STOCKS	2014
	Rs:
Inventory	136,063
	136,063
NOTE-TRADE DEBTORS,DEPOSITS & PREPAYMENTS	2014
	Rs:
Prepayment	4,735,680
Purchase Advance Non Merchandise	12,840
	4,748,520
NOTE -CREDITORS & ACCRUALS	2014
	Rs:
H/O C/A	38,047,822
Retention a/c	171,805
	38,219,626

NOTE TO THE FINANCIAL STATEMENTS	
NOTE - 12 INCOME	2014
	Rs:
Ticket Income	38,693,157
Hall Renting Income	9,093,235
Other Income	636,402
	48,422,794
NOTE TO THE FINANCIAL STATEMENTS	
NOTE 13-ADMINISTRATIVE EXPENSES	2014
	LKR
Salaries & Allowance	2,055,325
Over Time	444,757
Incentive & Overtime	326,437
E.P.F. & E.T.F.	179,318
Staff Welfare	631,626
Travelling Allowance	390,000
Medical Expenses	13,455
Advertisement	354,886
Security Service	6,333,063
Printing & Stationery	83,340
Postage/Tele/Telex	57,830
Fuel & Lubricants	145,593
Insurance	143,159
Water Bill	1,760,707
Electricity	386,314
Rep & Maint - Building	2,040,967
Rep & Maint - Machinery	1,975,776
Deperciaton	931,227
Amotization- Building	1,035,423
Cleaning Services	7,704,146
Openning Ceromany Expenses	4,799,860
Ape Gama Other Events	1,544,150
Event Management	12,371,304
	45,708,663
NOTES TO THE FINANCIAL STATEMENTS	
NOTE 14-VARIABLE DISTRIBUTION COST	2014
	LKR
Business Promotion	150,000
Transport	453,103
Cultural Event Pperformace	8,392,000
	8,995,103

NOTES TO THE FINANCIAL STATEMENTS CONTD...

Accounting Policies

1.0. 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, have been prepared in compliance with 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 of 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 annual rates used are as follows.

1. Building	2.5%
2. Machinery & Equipment	10%
3. Inventory Articles	10%
4. Furniture & Fittings	10%
5. Tools & Implements	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 date of the financial statements 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
Renovation	Owned	Amortize the cost incurred over a period of 10 Years	10 Yrs
Construction	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
Grants Received		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	YEAR	NATURE OF EXPENDITURE	COST(LKR)	UNAMORTIZED BALANCE C/F 01/01/14	BASIS	AMORTIZATION CHARGE	UNAMORTIZED BALANCE C/F
MUSEUM	2013	CONSTRUCTIONS	172,847,765.42	164,205,377.15	5%	8,662,238.25	
	2014		1,881,295.16		5%	940064.75	
TOTAL			174,729,060.58			8,736,453.03	▲ 155,468,924.12
BATTARAMULLA	2013	CONSTRUCTIONS	117,704,905.75	111,819,660.46			
	2014		7,119,771.92				
TOTAL			124,824,677.67		5%	6,241,233.88	▲ 105,578,426.58
PINNAWALA	2013	RENOVATION	10,086,000.00	9,077,400.00	10%	1,008,600.00	▲ 8,068,800.00
WAGOLLA	2014	RENOVATION	810,487.80		10%	81,048.78	▲ 729,439.02
PERADENYA	2013	RENOVATION	31,657,966.00	28,492,169.40			
	2014		8,968,353.20				
TOTAL			40,626,319.20		10%	4,062,631.92	▲ 24,429,537.48
GALLE	2014	CONSTRUCTIONS	0.00		10%	0.00	0.00
WELIPANNA		RENOVATION	10,269,017.76	9,242,115.98	10%	1,026,901.78	▲ 8,215,214.20
RACE COURSE	2013	RENOVATION	1,113,612.74	1,002,751.02	10%	111,361.22	▲ 890,889.80
KATUNAYAKE	2013	RENOVATION	1,060,000.00	954,000.00	10%	106,000.00	▲ 848,000.00
UNAWATUNA	2013	RENOVATION	1,000,000.00	900,000.00	10%	100,000.00	▲ 800,000.00
K-ZONE	2013	RENOVATION	8,353,071.63	7,517,764.47	10%	835,307.16	▲ 6,682,457.31
			372,872,246.88			22,309,537.78	311,711,688.50
APF GAMA		CONSTRUCTIONS	20,708,451.19		5%	1,035,422.56	19,673,028.63
			393,580,698.07			23,344,960.34	331,384,717.14

3.5 Impairment

The carrying amounts of the board's assets are reviewed at each of the financial statements 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.

Damaged stocks need careful identification of repairable & un-saleable items. A committee has been appointed for these purposes. Until the committee segregate the un-saleable items & determine the value the damaged items are stated at cost price.

Due to large volumes of art & craft & gift ware items handled during a year, damages or shortages cannot be ruled out. Therefore in order to minimize the losses on damages & shortages a policy has been developed in order to decide the quantum of allowable damages or shortages from the saleable stocks. Accordingly a provision will be created based on the value of the stocks to meet any contingencies arising out of damages & shortages.

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. SLPSAS 02 –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 defined benefit plan covering 200 employees of the organization. In order to meet this liability a provision is carried forward as at the date of the financial statements 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. 495 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.497 M

Subsequently the revolving credit facility was extended to Rs.150 M. The balance facility of Rs.345 M is the outstanding balance as at 31/12/2014.

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 the General Treasury has arranged the loan facility.

6. Liabilities and provisions

Liabilities and provisions are recognized in the financial statements 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 from the financial statement date are treated as current liabilities in the financial statements. Liabilities payable after one year from the financial statements date are treated as non- current liabilities in the comprehensive statement of financial position.

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 deferred Income and amortized over a period of 10 years.

Rs.100,000,000 was received from the Ministry of Economic Development , under Divi Naguma program to re construct and refurbishment the Museum Sales Complex in the year 2012 & a further Rs.35,000,000 received in the year 2014. A sum of Rs.107,262,625/- was received from the General Treasury under the National budget proposal in the year 2013 & another Rs.11,137,374.43 in the year 2014.

The grants received from the year 2012 to 2014 have been accounted as follows:

AMORTIZATION OF GRANTS RECEIVED

RECEIVED FROM	YEAR	GRANT RECEIVED	AMORTIZED AMOUNT AS AT 1/1/2014	INCOME FOR 2014	UNAMORTIZED BALANCE C/F
ECONOMIC DEVELOPMENT MINISTRY	2012	100,000,000.00	80,000,000.00	10,000,000.00	70,000,000.00
BUDGET PROVISIONS	2013	36,000,000.00	32,400,000.00	3,600,000.00	28,800,000.00
BUDGET PROVISIONS	2013	10,224,642.80	9,202,178.52	1,022,464.28	8,179,714.24
BUDGET PROVISIONS	2013	42,109,637.11	42,109,637.11	4,210,963.71	37,898,673.40
BUDGET PROVISIONS	2013	11,099,919.83	9,989,927.85	1,109,991.98	8,879,935.87
BUDGET PROVISIONS	2013	7,828,425.83	7,045,583.25	782,842.58	6,262,740.67
ECONOMIC DEVELOPMENT MINISTRY	2014	35,000,000.00		3,500,000.00	31,500,000.00
BUDGET PROVISIONS	2014	11,137,374.43		1,113,737.44	10,023,636.99
		253,400,000.00	180,747,326.75	25,340,000.00	201,544,701.17

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 year 2013, 5 sales outlets were launched incurring Rs.19,057,882/=. 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.

Location	Cost (Rs.)	Charged Previous Year (Rs.)	Charge for Year 2/3 (Rs.)	Deferred revenue exp. (Rs.)
Museum	10,423,953	3,474,651	3,474,651	3,474,651
Battaramulla	6,795,454	2,265,151	2,265,151	2,265,152
Galle	1,241,170	413,723	413,723	413,724
Peradeniya	297,305	99,102	99,102	99,101
Wellpenna	300,000	100,000	100,000	100,000
	19,057,882	6,352,627	6,352,627	6,352,628
Pinnavala (Directly charged for 2014)			130,453	
	19,057,882	6,352,627	6,483,080	6,352,628

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	10,432,332.25
Less Amortized previous year (as at 31/12/2013)	<u>3,093,186.68</u>
Opening Balance as at 01/01/2014	7,339,145.37
Less : Amortized during the year	<u>1,654,846.00</u>
	<u>5,684,299.37</u>

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.

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.

An ex-employee has filed action against the Board claiming re-instatement or damages of Rs.5mn. However as per the legal advice it is most unlikely that a liability of payment will arise at this moment.

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.

7.11 Apegama

This was developed as a novel concept to attract local & foreign tourists. It represents a model as a living mini model village. Hence it has been identified as a separate business activity other than selling gift & souvenir items. Accordingly separate set of accounts have been prepared to identify the profitability from the operations.

7.12 Discontinued operations

Due to sustained losses from the inception & accumulated losses we have decided to discontinue operations with effect from February 2014 to avoid any further losses. The amount spent on modification to the structure lying in the accounts as Rs.6.7 m as unamortized balance. Action will be taken to recover or write off this amount from books of accounts in the future.

SRI LANKA HANDICRAFTS BOARD		
STATEMENT OF		
FINANCIAL POSITION		
As at 31st December 2014		
		Craft Training
		2014
		LKR
ASSETS		
Property, Plant & Equipment		46,298,422
Non-current assets		46,298,422
Inventories		
Trade Deb. & Other Receivables		31,140,299
Cash & Cash Equivalents		31,177
Current assets		31,171,476
Total assets		77,469,898
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Stated Capital		
Capital Reserves		814,419
Revaluation Reserves		9,086,454
Grants Received		55,336,829
Profit & Loss		(17,524,970)
Total capital & reserves		47,712,732
Retirement Benefit Obligations		
Deferred Tax Liabilities		12,345,384
Deferred Income		
Loan		
Non-current liabilities		12,345,384
Creditors and Accruals		14,475,754
Bank Overdraft		2,936,028
Current liabilities		17,411,782
Total equity & liabilities		77,469,898



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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எனது இல. } 2016/03/001/1 2014/03

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*CIA
Pl. forward to the
Adm Committee
for the necessary
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02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ ඉංග්‍රීසි අනුවාදය මේ සමඟ එවා ඇත.

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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

C1/A/SLHB/1/2014/03

ඔබේ අංකය
உமது இல.
Your No.

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திகதி
Date

}

13 March 2016

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 2014 in terms of 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 2014 comprising the statement of financial position as at 31 December 2014 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 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 issued to the Chairman of the Board on 21 October 2015.

1.2 Management's Responsibility for the Financial Statements

The 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 the audit conducted in 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 paragraphs 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 position, statement of financial performance and 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 have not been able to obtain sufficient appropriate audit evidence to provide a basis for an 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 Standards

Instances of Non-compliance with Sri Lanka Accounting Standards, are as follows.

(a) Sri Lanka Accounting Standard 07

The cash flow statement had not been prepared to show cash in-flows, and out-flows during the year in compliance with the standard and the following matters are observed in that connection.

- (i) Depreciations had been understated by a sum of Rs. 4,613,737, whereas the deference between the trade debtors and other payments had been overstated by a sum of Rs. 1,814,130 in the cash flow statement.



(ii) In computing the cash flow generated from operational activities, the pre-tax net profit should be considered. However, the cash flow had been computed based on the basis of profit after tax and interest expenditure and the gratuity provision had not been adjusted.

(iii) A sum of Rs. 44,862,328 transferred from work in progress, had been shown under investment activities as cash received from the realization of investments.

(b) Sri Lanka Accounting Standard 10

Even though the K Zone Showroom procured on rent basis had been modernized at a cost of Rs.8, 353,071 and declared open on 14 June 2013, it had been closed down due to the non-receipt of the expected income by March 2014. The expenditure incurred on the modernization of this showroom had been amortized at 10 per cent in the preceding year and the year under review, and the balance amounting to Rs. 6,682,457 had been shown as non-current assets. Action had not been taken to identify the loss incurred on the construction due to closure of the showroom, and bring it to the account accordingly.

(c) Sri Lanka Accounting Standard 16

Although there had been a large number of assets currently being used at the Training Centre in Katubedda, and the Light Engineering Division in Keselwatta, action had not been taken to revalue those assets by identifying them separately in order to show the fair value.

(d) Sri Lanka Accounting Standard 20

The following matters were observed in connection with the utilization of provisions received from the Government for capital expenditure.

(i) It had been decided according to the accounting policy of the Board that a sum of Rs. 100,000,000 granted in 2012 by the Ministry of Economic Development for the construction of a Laksala Showroom at the Museum, be written off against the income by a period of 10 years. The said construction had not been completed in the year 2013 though, the grant had been amortized by 10 per cent. This asset had been capitalized in the year 2013, and it had been amortized by 5



per cent per year as per the accounting policy of the Board. Despite being stated in the audit reports of the previous years as well that the said policy had not complied with the Sri Lanka Accounting Standard 20, and amortization and depreciation be adjusted to a same percentage, action had not been taken for the rectification even in the year under review. Accordingly, sums of Rs. 10,000,000, Rs. 5,000,000 and Rs. 5,000,000 had been brought into the revenue in excess as other income in the years 2012, 2013 and the year under review respectively, whilst the deferred income had been understated by the same amount.

- (ii) A Government grant of Rs. 36,000,000 received in 2013 for the construction of showroom in Battaramulla, had also been show as deferred income, and that amount too had been amortized under the above mentioned policy whilst the asset had been depreciated by 5 per cent. As such, the income of the preceding year and the year under review had been overstated by sums of Rs. 1,600,000 and Rs. 1,600,000 respectively.
- (iii) Although a grant of Rs. 35,000,000 had been received from the Ministry of Economic Development in the year under review for the renovation of center for tourism in Unawatuna, no repair whatsoever had been made therein. However, 10 per cent of the value of the grant equivalent to Rs. 3,500,000 had been brought into the revenue of the year as other income.

2.2.2 Accounting Policies

Despite being stated that property, tools, and equipment shall be depreciated on the straight line method, the net value that had resulted in after the accumulated depreciation had been deducted from the cost of the asset, had been depreciated according to the relevant percentage of depreciation. As such, depreciation had been understated by a sum of Rs2, 908,717 in the year under review.



2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to assess the land where the Galle showroom is located, and bring into the accounts.
- (b) In transferring assets and liabilities from the Department of Small Industries, a donation of Rs. 25,467,530 received from the Government for Katubedda Project, had been shown under creditors.
- (c) Although the land valued at Rs. 63,037,977 where Katubedda Showroom was located, had been owned by the Government, it was shown in the financial statements as an asset of the Board instead of taking actions to take over the land.
- (d) Stock book balance had been shown in the accounts instead of accounting the stock balance that had been physically verified. According to the verification reports a shortage of Rs. 9,576,033, and an excess of Rs. 3,347,268 had been reported in stocks. However, action had not been taken to adjust them in the accounts.
- (e) As the advances totaling Rs. 6,401,918 granted for miscellaneous expenses had not been adjusted either to the relevant expenses, or the assets, expenses and assets had been understated whereas the profit of the year had been overstated.

2.3 Accounts Receivable and Payable

Out of the debtor balances of Rs.12,733,484 a balance of Rs.8,733,484 and out of the total creditors amounting to Rs. 193,975,264 a sum of Rs. 140,501,848 had been older than one year, and action had not been taken to settle those balances.

2.4 Lack of Evidence for Audit

The evidence stated against the following items of the financial statements, had not been presented to audit.



<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made Available</u>
Property, Plant and Equipment	872,740,409	Registry of Fixed Assets, Schedules, Board of Survey Reports and Contract Files.
Bank loans	204,426,500	Confirmation of balances
Work in progress	45,451,390	Contract Files
Miscellaneous payments	1,441,400	Bills, Receipts
Miscellaneous advances and Debtors	72,503,456	Schedules

2.5 Non-compliances 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.

<u>Reference to Laws, Rules, Regulations, etc.</u>	<u>Particulars of non-compliances</u>
(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 handicrafts 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) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 135	Duties should be assigned to the officers in a manner that any transaction shall be under the supervision of 2 officers, it had not been so done.



(ii) Financial Regulation 372

Monies granted for advances should be under constant supervision of the Head of the institute, and it should be checked monthly. However, it had not been so done in connection with advances totaling Rs. 6,401,918

(c) Public Enterprises Circular

(i) of Circular No. PED/12 of
 02 June 2003
 Paragraph 5.1.3

Updated copies of the Corporate Plan should be presented with the approval of the Board of Directors to the Line Ministry, Department of Public Enterprises, the Treasury and the Auditor General at least 15 days prior to the commencement of the financial year together with the budget. Nevertheless, it had not been so done.

Paragraph 6.5.1

A draft Annual Report proposed to be publicized with the financial statements of the year under review, had not been presented to the Auditor General.

(ii) Circular, No. PED/50 of 28
 July 2008

Even though a Chairman of the Board and Corporation is entitled to 220 liters of petrol or an allowance of Rs.20, 000 per month or in addition Rs.30, 000 per month if a motor vehicle of the Board is not used, the Ministry had allowed the Chairman to function in the capacity of Chief Executive Officer, and approval had been granted to pay a sum of Rs. 150,000 per month for the supply of a suitable vehicle and a sum of Rs 50,000 as fuel allowance. As such, a sum of Rs. 1,800,000 had been overpaid in the year under review, and he had used pool vehicles of the Board as well.



(iii) Circular. No. PED 58(2),
 dated 15 September 2011.

(ii) Although the sum payable for the participation in a Board of Directors' meeting is Rs. 6,000, a Director had been paid at the rate of Rs. 12,500 for the meetings of Board of Directors held in the year 2014 , thus overpaying a sum of Rs. 520,000

(iii) Although the Managing Directress is not entitled to receive an allowance for functioning in the capacity of Secretary to the Board of Directors, she had obtained a sum of Rs. 90,000 at Rs.10,000 per meeting of the Board of Directors.

(d) Paragraph 02 of the Circular No. DMS/G3/60/2 dated 21 December 2012 of the Department of Management Services

The Scheme of Recruitment for all the posts approved under the restructure in terms of specimen shown by the Department of Management Services should be prepared and the recommendations of the National Salaries and Cadre Commission should be obtained. However, the recommendations had not been obtained even by 30 September 2015.

(e) Circular Letter No. DMS/G3/60/2 dated 21 December 2012 of the Department of Management Services, and Public Enterprises Circular, No. PED 50 dated 28 July 2008.

Although it had been stated that a monthly transport allowance could be paid for the employees recruited on contract basis, approval had not been obtained for the relevant amount. Despite limits for fuel imposed for the officers by the Public Enterprises Circular, the Chairman had approved monthly transport allowances for the employees on contract basis as well as permanent employees on the approval of the Board of Directors. Accordingly, a sum totaling Rs.6,722,250 had been paid to 51 employees as



allowances ranging from Rs. 10,000 to 50,000, and transport facilities had also been provided by the institute for certain officers.

- (f) Volume PE1/000/6 (Allowances) . Even though only the entertainment expenses dated 05 June 1998 reimbursed, the Board of Directors had granted approval to pay entertainment expenses to the Chairman / Chief Executive Officer subject to a maximum of Rs.150,000 per month. Accordingly, a sum totaling Rs.1,800,000 had been paid as entertainment expenses in the year under review.

Financial Review

Financial Results

According to the financial statements presented, the operating result of the Board for the year amounted to a net profit of Rs.7,302,990 as compared with the corresponding net profit of Rs.13,742,680 for the preceding year. Accordingly, a deterioration of the financial result amounting to Rs.6,439,690 as compared with the preceding year was indicated. The deterioration had mainly been contributed by the increase in distribution expenses, and the financial cost.

Analytical Financial Review

The following observations are made.

- (a) Due to operating inefficiencies of the Board, it was observed that the net profit had decreased to 0.8 per cent even when the gross profit was 64.6 per cent.
- (b) As the remaining stocks contained a large stock sufficient for 2 years, the quick assets ratio was not at a satisfactory level.



- (c) An unusual increase in the Heads of expenditure from 14 per cent to 1055 per cent had been observed. Whilst the total turnover had increased by 26.3 per cent, administrative expenses, distribution expenses and financial expenses had also increased by 23 per cent, 46 per cent and 29.7 per cent respectively.
- (d) Even though the main objective of the establishment of the Board includes the expansion in the production of handicrafts, improving the quality thereof and increasing the income of the manufacturers through sales of handicrafts, the manufacturers had been paid only 35.4 per cent of the income earned by the Board, whereas the operating expenses had been 65 per cent of the total income.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to take over the ownership of lands where the Battaramulla showroom and Ape Gama had been constructed by incurring costs of Rs.174,824,677, and Rs.27,054,071 respectively.
- (b) Action had been taken to repair the building at Fort without plans, and a sum of Rs. 45.5 million had been spent only for the removal of interior constructions including the elevator. Although almost 2 years had elapsed by 30 September 2015, the office premises and a part of the showroom had become unusable as construction had been halted halfway. The showroom had confined to 1/4th of its earlier extent, and the sales had also dropped from Rs. 85.7 million to Rs. 51.6 million as compared with the preceding year.

4.2 Transactions of Contentious Nature

Incentives of Rs. 32,091,600 in the year 2014 and Rs. 31,553,522 in the year 2013 had been paid. According to the letter No. DMS/G3/60/02 dated 19 February 2013 of the Director General of the Department of Management Services, incentives had been approved as “incentives for fulfilling the sales targets”, and “incentives for attendance” stating that payments should be determined and made under the approval of the Board of Directors. The manner in which the incentives paid for the year 2014 had been distributed among the staffs, is as follows.



<u>Category of Employee</u>	<u>No. of Employees</u>	<u>Amount Paid</u> Rs.	<u>Percentage of Incentives</u> %	<u>Per employee earning</u> percentage
Board of Management	22	16,098,446	50.2	2.2
Sales and Other Staff	176	15,993,154	49.8	0.3
	<u>198</u>	<u>32,091,600</u>	<u>100</u>	

The following observations are made in this connection.

- Incentives had been computed based on monthly turnover, without considering the operating profit and the net profit.
- A sum of Rs. 32,091,600 had been paid as incentives for the year 2014. Of that, a sum of Rs. 16,098,446 representing 50.02 per cent had been paid to 22 officers of the Board of Management, whereas 49.8 per cent had been paid to 176 employees of the other staff. As such, huge discrepancies had been observed in paying incentives.
- Only the payment voucher relating to the incentives paid to the Board of Management had been presented to the audit, whereas sums paid to each officer, basis on which the incentive had been computed, and approval had not been presented to audit.

4.3 Idle and Under-utilized Assets

The following observations are made.

- Although the Handicrafts Training Division had been vested in the National Crafts Council in 2009, the Carpentry Training Division in Katubedda had not been vested in the National Crafts Council. Hence, buildings of the training school that could facilitate training for 80 students simultaneously, machinery, teaching equipment, hostel equipped with 40 double beds and furniture, and bag manufactory in extent of 8000 square feet, had remained idle for a period of 4 years.



(b) Buildings with lecture halls at the Light Engineering Training Institute in Panadura, Keselwatta, and valuable machines including lathe machines used by 20 Engineering Technicians for their training activities, had been decayed and remained idle over a period of 5 years.

4.4 Un-economic Transactions

The following observations are made.

(a) Despite the buildings in Katubedda remained idle, a building had been obtained on lease for 2 years from the Norris Canal in Colombo 10, and rentals amounting to Rs. 2,762,500 had been paid in the year under review. The said building had been repaired by spending a sum of Rs. 1,350,443.

(b) A sum of Rs. 19,057,882 had been spent as recurrent expenses on the inauguration ceremony for the showrooms in museum premises, Battaramulla, Galle, Peradeniya, and Velipenna in the preceding year. The said amount represents about 6 per cent of the expense incurred on the renovation of buildings in which the showroom had been launched.

4.5 Personnel Administration

The following observations are made.

(a) There had been 39 vacancies in the approved permanent cadre, whereas 45 employees in excess had been appointed on contract basis.

(b) Once the Chief Executive Officers of the Board were retired, the same persons were reappointed on contract basis rather than making new appointments.

4.6 Identified Losses

“Ape Gama” had functioned as a center to display the features of a vintage village for foreign and local visitors, and as a hot spot for promoting tourism by organizing various festivities. The same troupe had continuously been selected for the ceremonies performed therein without calling for competitive bidding in terms of Section 3.2 of the Procurement Guidelines, and a payment of Rs. 14,078,000 had been made in the year under review.



5. Accountability and Good Governance

5.1 Corporate Plan

As the Action Plan for the year 2014 and the progress of performance had not been presented to audit, it was not possible to examine the progress acquired by the Board relating to each objective. The Corporate Plan prepared by the Board had not indicated targets to be achieved during each period in connection with the relevant activities.

5.2 Internal Audit

Even though an internal audit program had been prepared, audits had not been conducted in accordance with 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 statements 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 on the contentious matters such as the works and construction contracts and other sundry payments had not been carried out.

5.3 Procurement Plan

A Procurement Plan had not been prepared by the Board for the year 2014, in terms of paragraph 05 of the Public Enterprises Circular No.PED 12 of 02 June 2003.

5.4 Unresolved Audit Paragraphs

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

A sum of Rs.335 million had been spent up to the preceding year 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 which established the National Handicrafts Board as reported in the Report of the Auditor General for the year 2012. Constructions valued at Rs. 5.5 million had been made in the year under review.

Of those activities, some of the instances of contentious nature, are given below.



<u>Service Provider</u>	<u>Description</u>	<u>Progress</u>
(i) 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 were not functioning due to substandard quality. A compensation of Rs. 4,020,000 remained payable following the verdict of the case filed by the Kotte Municipal Council against Laksala in that connection.
(ii) Southern Development Authority	Miscellaneous activities such as installation of public address system, air conditioner, laying cables, etc.	The relevant institution had reported on various defects.
(iii) Sri Lanka Broadcasting Corporation	Construction of a transmission tower.	Construction work of it had been stopped halfway. It was agreed to refund a sum of Rs.4,348,041 out of the advance obtained according to the agreement by the letter sent to the Chairman of the Sri Lanka Broadcasting Corporation on 10 July 2014.
(iv) Ministry of Justice	Renovation of International Arbitration Center	The Board had obtained a contract in 2013 with an estimated value of Rs. 107,148,660 for the construction of International Arbitration Center, a project by the Ministry of Justice, on the 6 th floor of the World Trade Center in Colombo, and assigned



the contract to other private company without calling for tenders. According to an audit query of the relevant Ministry, a payment of Rs. 66,839,734 had been made for this contract. It was observed that, out of the said amount, a sum of Rs. 22,874,689 had been paid for uncertified work, whilst an overpayment of Rs. 5,703,000 had been made.

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

According to the decisions of the Board of Directors on the Board Paper No. 2009/44 and 2010/01 presented to the Board of Directors by the Laksala authority based on the Cabinet Memorandum in the aforesaid Paragraph 5.5 (a), an Engineering Unit had been established in Laksala in October 2009 for carrying out engineering projects of any description as a profit center for an assistance to the Laksala. However, activities of this unit had been suspended with effect from April 2011.

After being decided that the Engineering Unit suspended by the Board Paper No. 2011/29 dated 17 June 2011, be restructured, the Board of Directors had decided based on the aforesaid Cabinet decision that the Unit be established as anew one for activities relating to construction of Public institutes, internal constructions, carpentry, light engineering works, and providing supplies and services. Accordingly, action had been taken to award all contracts to 04 contractors registered by the Board, to grant contracts with values less than Rs. 2.5 million for maintenance of buildings to a private construction firm that remained as an engineering unit of Laksala and later established as a private entity. 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 in the Institute of Construction Training and Development. (ICTAD)
- (iii) Even though all contracts 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.

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. However, those activities had not been finalized even by the end of the year 2014. 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 following the aforesaid Cabinet decision, 189 employees, of the Crafts Training Division of the Sri Lanka Handicrafts Board had been transferred to the National Crafts Council from 01 May 2009, and action had been taken to transfer 132 training centers under the Crafts Training Division to the National Crafts Council. Out of those, 70 buildings belonged to the Board. Even though the equipment, machinery, tools and equipment and 03 motor vehicles had been handed over to the officers of the National Crafts Council, the value thereof had not been computed and formally transferred even up to 31 August 2015.



- (d) The position with regard to paragraph (c) 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 year 2012. Even though those had been eliminated from the statement of financial position for the year 2013 and shown as a Note, action had not been taken to rectify that.

5.5 Budgetary Control

According to the budget for the year 2014, the targeted sales amounted to Rs. 910 million. However, the actual sales amounted to Rs. 823 million. As variances ranging from 20 per cent to 94 per cent between the actual income and expenditure and the budgeted income and expenditure were observed, the budget had not been made use of as an effective instrument of management control.

6.11 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) Contract Administration
- (c) Debtors Control
- (d) Control of Fixed Assets
- (e) Control of Advances
- (f) Personnel Administration
- (g) Stocks Control

H. M. Gamini Wijesinghe.

Auditor General