Sri Lanka Handicraft Board - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Handicraft Board ("Board") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of compressive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which. I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Concluded on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;

- Whether the Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to particular standard	Comments of the Management	Recommendation
(a)	According to sections 28 and 34 of Sri Lanka Accounting Standard No. 02, where the cost of inventories cannot be recovered, the cost of such inventories should be written down to their net realizable value, and the amount written down should be recognized as an expense of the year. However, action had not been taken in accordance with the standard in respect of damaged inventories valued at Rs.877,957, identified during the physical stock verification conducted during the year under review.	Action will be taken in accordance with the standard in respect of damaged inventory.	In accordance with Sri Lanka Accounting Standards, inventory damages should be accounted for as an expense of the year.
(b)	In correcting prior-period errors, according to section 42 of Sri Lanka Accounting Standard No. 08, comparative amounts presented for the period in which the error occurred should be restated. However, the Board had not restated the comparative figures relating to 92 errors amounting to Rs.70,721,246 pertaining to prior periods. Furthermore, these matters had not been disclosed in the financial statements as required under section 49 of the Standard.	Action will be taken from the year 2025 onwards to restate comparative figures when correcting prior-period errors in accordance with Sri Lanka Accounting Standard No. 08.	In accordance with Sri Lanka Accounting Standards, comparative figures should be restated when correcting prior-period errors, and the relevant matters should be disclosed in the financial statements.

(c)	According to sections 50 and 51 of Sri Lanka Accounting Standard No. 16, the useful life of assets in use should be reviewed annually, and the estimated useful life should be accounted for accordingly. However, as at the end of the year under review, assets costing Rs. 181,980,913, which had been fully depreciated but were still in use, had not been revalued or accounted for based on an estimated useful life.	Action will be taken regarding fully depreciated assets based on the recommendation of a technically knowledgeable committee and with the approval of the Board of Directors.	In accordance with Sri Lanka Accounting Standards, the useful life of assets in use should be reviewed annually, and the estimated useful life should be determined and accounted for accordingly.
(d)	According to section 76 of Sri Lanka Accounting Standard No. 19, the present value of the post-employment benefit obligation and the related current service cost in respect of gratuity provisions amounting to Rs. 56,442,498 had not been recognized in the accounts.	Action will be taken to obtain a recommendation from the Board of Directors and carry out this task in the future by engaging an institution that provides such services.	In accordance with Sri Lanka Accounting Standards, when making provisions for gratuity, the present value of the post-employment benefit obligation and the related current service cost should be recognized in the accounts.
(e)	According to section 17 of Sri Lanka Accounting Standard No. 24, remuneration and other benefits paid to related parties should be disclosed in the financial statements. However, the financial statements had not disclosed the relevant information regarding remuneration and other benefits paid to key management personnel, nor had they disclosed that there were no transactions with related parties.	Action will be taken to make the required disclosures in the financial statements.	In accordance with Sri Lanka Accounting Standards, remuneration and other benefits paid to key management personnel should be disclosed in the financial statements.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	An amount of Rs. 550,000, payable during the year under review for rectifying errors that existed in the SAP system, had not been accounted for.	Action has been taken to correct this in the 2025 accounts.	All expenses relating to the relevant financial year should be identified and properly accounted for.

(b)	VAT amounting to Rs. 770,745, relating to sales under 53 local and foreign orders with a total value of Rs. 12,333,493 excluding VAT, had been included in sales revenue. As a result, sales revenue had been overstated by that amount.	Since VAT invoices had been issued for the 53 orders, the VAT amount will be corrected in 2025 as a prior-year adjustment.	VAT collected should be accounted for through a VAT control account.
(c)	The value of inventory relating to sales amounting to Rs. 4,898,485 at Laksala premises had not been deducted from closing inventory during the year under review, as a result, assets and profit for the year under review had been overstated by the same amount.	This will be corrected in the accounts for the year 2025	The inventory value relating to sales should be deducted from closing inventory and the necessary accounting adjustments should be made.
(d)	Following the failure of the SAP system, sales made from March 2024 onwards had been manually entered into the system. A difference existed between sales recorded at the respective centres and sales recorded in the system. Although the difference of Rs.188,361,518 had been entered into the system as sales, the relevant source documents had not been submitted to the audit.	From 2025 onwards, action will be taken to provide the relevant information whenever such adjustments are made.	The difference between sales value included in the system and actual sales value should be reconciled and corrected. All transactions should be supported and verified by relevant source documents for audit purposes.
(e)	When reconciling inventory and purchases for the year under review, the cost of sales was Rs. 402,421,619, whereas according to the financial statements it was Rs. 389,142,013, resulting in a difference of Rs.13,279,606. Adjustment had not been made for this difference.	Action will be taken to correct this matter in the future.	The difference in cost of sales should be reconciled and corrected. Inventory and purchases should be properly reconciled, and the cost of sales should be accurately calculated.
(f)	Capital expenditure amounting to Rs.1,165,600 incurred during the year under review had not been capitalised under Property, Plant and Equipment and had instead been recognised as operating expenses. As a result, net profit and total assets had been	Action will be taken to correct this matter in the 2025 financial statements.	Expenditure that should be capitalized as Property, Plant and Equipment should be correctly identified and accounted for.

understated by the same amount for the year under review.

1.6 Accounts Receivable and Payables

1.6.1 Account Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	As at 31 December 2024, the trade debtor balance was Rs. 6,936,088, of which Rs.1,963,011 represented debtor balances outstanding for more than three years. Action had not been taken to recover these balances during the year under review.	The relevant debtor balances will be investigated and action will be taken to recover the recoverable amounts. Provision for doubtful debts will be made for balances that cannot be recovered.	Prompt action should be taken to recover outstanding debtor balances. Balances for which recovery is uncertain should be properly identified and adequate provision for doubtful debts should be made.
(b)	Although the Katubedda project had been completed, an amount of Rs.1,182,387 remained receivable as at 31 December 2024 from sales made under special orders to eight government institutions during the period from 2014 to 2018. Of this amount, Rs. 720,474 had been written off under special provisions as at 31 December 2018 without adequate recovery action. Due to delays in the debt recovery and follow-up processes, these long-outstanding balances remained unsettled. Furthermore, trade receivables amounting to Rs. 9,578,372 due from government and private institutions had continued to be shown in the accounts after deducting them as irrecoverable receivables.	The relevant debtor balances will be investigated, recoverable amounts will be collected, and very old outstanding balances will be submitted for the Board of Directors' Approval for making a final decision.	All possible measures should be taken without delay to recover receivable balances.
(c)	The total expenditure incurred by the Board amounting to Rs. 70,864,399, (After amortization) for the development of the building established on the National Museum premises and handed back on 31 December 2023, had not been recovered as at 16 October 2025.	The Department of National Museums has indicated that Rs. 7.5 million can be provided for the amount of Rs.70.8 million due to the Board. Since this amount is insufficient, further	Immediate action should be taken to recover the amount due to the Board.

		discussions are being held.	
(d)	Although Rs.15,248,575 had been paid on 12 December 2012 for acquisition of the land with the building situated at Unawatuna, Galle, owned by Lanka Salusala Ltd., the property had subsequently been sold by Salusala Ltd. to the Sri Lanka Industrial Development Board on 22 September 2023. The amount incurred by the Board had not been recovered by the end of the year under review.	Lanka Salusala Ltd. has been informed in writing, and at the Ministry Audit Committee it was agreed that the outstanding amount would be settled without delay.	Immediate action should be taken to recover the amount incurred by the Board.
(e)	The Board did not have documentary evidence support to 10 advance balances totalling Rs.10,981,969, which remained unsettled as at 31 December 2024, in respect of advances granted for purchases, administration, marketing and the Katubedda project.	As these are very old transactions, action will be taken to investigate and rectify them in upcoming years.	Documentary evidence relating to the advances should be obtained and the outstanding advances should be settled without delay. Where officers are responsible for failure to settle advances, appropriate disciplinary action should be taken against them.

1.6.2 Account Payables

	Audit Observation	Comments of the Management	Recommendation
(a)	Five balances amounting to Rs.6,939,703, relating to goods purchased from suppliers and outstanding since 2013, 14 balances amounting to Rs.8,538,309, relating to various services obtained and outstanding for a long period, and audit fees of Rs. 10,029,134 payable to the National Audit Office for the period from 2011 to 2022 remained unsettled.	Action will be taken to investigate whether payments have already been made and, if so, to make the necessary corrections.	Payable balances should be confirmed and settled promptly.

(b)	PAYE taxes amounting to Rs.581,352 withheld since May 2023 and taxes amounting to Rs.1,494,183 withheld from officers' payments for the period from 2017 to 2021, had not been remitted to the Department of Inland Revenue.	The withheld taxes will be paid to the Department of Inland Revenue in instalments based on the financial position of the institution.	Taxes payable should be remitted to the Department of Inland Revenue without delay.
(c)	Outstanding tax balances accumulated over several years, comprising income tax of Rs.63,173,745, VAT of Rs.2,728,764, Nation Building Tax of Rs. 25,645,319, and Economic Service Charge of Rs.4,303,359, had not been settled during the year under review.	Necessary arrangements have already been made to make these payments based on the financial position of the institution.	Outstanding taxes should be remitted to the Department of Inland Revenue without delay.

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

	Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Social Security Contribution Levy Act, No. 25 of 2022	Although the tax payable under the self-assessment basis should have been paid monthly to the Department of Inland Revenue, tax amounting to Rs.11,320,094 relating to the year 2024 had not been paid accordingly.	Action will be taken to pay these amounts without delay in the forthcoming financial years.	Action should be taken to pay the taxes payable within the stipulated period in accordance with the provisions of the Act.
(b)	Financial Regulations 371(2), as amended by Section 9.1(b) of Public Finance Circular No. 1/2020 dated 28 August 2020	Although advances should be settled immediately upon completion of the relevant activity, advances amounting to Rs.1,780,458, obtained by 16 officers on 41 occasions during the period from 2021 to 2024, had not been	Action will be taken to settle these advances during the year 2025.	Since advances should be settled immediately after completion of the relevant activity in accordance with the Circular instructions, an appropriate internal control process should be established. Necessary action should be taken against officers who

		settled as at 10 October 2025.		delay the settlement of advances
(c)	Operational Manual for State-Owned Enterprises introduced by Public Enterprise Circular No. 01/2021 dated 16 November 2021			
(i)	Section 3.2	Although Rs.7,960,888 had been paid as incentives and Rs. 2,035,580 as medical expenses during the year under review, Treasury approval had not been obtained for such payments.	Payments have been made subject to the approval of the Board of Directors.	Payments for such special benefits should be made only after obtaining the required Treasury approval.
(ii)	Section 6.6	The financial statements for the year 2024 had been submitted to the Auditor General on 2 October 2025, with a delay of nine months. Furthermore, the draft annual report had not been submitted even by 31 March 2026.	Action will be taken in the forthcoming financial year in accordance with Section 6.6 of the Operational Manual for State-Owned Enterprises.	Financial statements and the draft annual report should be submitted within the prescribed time in accordance with the Circular instructions.
(d)	Section 4(C)(i) of Treasury Secretary's Circular No. PED 01/2018 dated 18 September 2018	Although a double-cab vehicle with an engine capacity not exceeding 3,000 CC could be obtained under an operating lease at a monthly payment of Rs. 165,000 including VAT, a CHR cab had been obtained under a lease arrangement at Rs. 350,000 per	Since all quotations received exceeded the prescribed limit, action had been taken in accordance with the decision of the Technical Evaluation Committee and Procurement Committee to	Action should be taken in accordance with the provisions of the Circular, and assets should be acquired in an economical and cost-effective manner.

month, contrary to the prescribed limit, based on the approval granted by the Director General of Public Enterprises through letter No. PED/S/SLHB/5/7 dated 2 January 2024.	inform the Department of Public Enterprises (PED) through the line Ministry and proceed according to the instructions received.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 25,086,792, and compared with a profit of Rs. 57,120,290 in the previous year. Accordingly, a decrease of Rs.32,033,498 in the financial result was observed.

Although revenue had increased by Rs. 261,641,584, the increases in administrative expenses by Rs. 44,413,104, selling and distribution expenses by Rs. 96,770,600, finance costs by Rs.1,832,284, and cost of sales by Rs. 143,315,756 had mainly contributed to the decline in the financial result.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Two senior female officers had been suspended for causing financial losses to the Sri Lanka Handicrafts Board by acting contrary to the provisions of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, Financial Regulations and Circulars. In this regard, due to the failure of the disciplinary authority to issue a disciplinary action in accordance with Section 23 of Chapter XLVIII of Volume II of the Establishments Code, negligence and lack of due care by the Board of Directors, and delays in taking appropriate action when necessary, the losses could not be recovered. Consequently, one of the suspended officers had to pay compensation amounting to Rs.6,294,099.	After receiving the formal disciplinary inquiry reports relating to the two officers, the reports were submitted to the Board of Directors. However, it was observed that final decisions regarding disciplinary actions against the accused officers had not yet been made in accordance with the decisions of the Board of Directors. Action will be taken to avoid such lapses in the future.	Appropriate Action should be taken against the officers after investigating the reasons for failure to execute disciplinary order relating to the recovery of the financial losses incurred to Board. Action should also be taken to recover the losses incurred.

	Audit Observation	Comments of the Management	Recommendation
(b)	Stock shortages amounting to Rs.6,687,842, identified during the physical stock verification and carried forward from the previous years, were written off as an expense against the surplus of the year under review without identifying the responsible parties ,taking action to recover the loss from them, and without obtaining approval of the Board of Directors.	A suitable committee is scheduled to be appointed to conduct a detailed investigation into this matter, and further action will be taken according to the recommendations of the committee.	The parties responsible for stock shortages should be identified and the relevant amounts should be recovered from them.
(c)	A contract had been entered into with a company for the implementation of the Board's ERP system, effective from 12 July 2024 and scheduled to be completed by 15 October 2024, at a cost of Rs.35,438,690. However, the relevant project had not been completed even by October 2025.	The implementation had been planned on a module-by-module basis, and the payroll component of the administration section was initially completed. Subsequently, the sales-related component was also completed. However, various modifications made by different sections resulted in delays in completing this accounting system. The system is currently at the testing stage.	Action should be taken to establish and commence the use of the ERP system without further delay.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The Board had obtained a loan of Rs. 200 million from the Regional Development Bank in 2013 to meet its working capital requirements. Due to failure to repay the loan as scheduled, interest payable amounting to Rs. 12,609,761 had been capitalized as an additional loan amount. However, by the end of the year under review, no suitable plan had been agreed upon with the bank to settle the outstanding loan.	Discussions will be held with the Regional Development Bank regarding the settlement of the outstanding loan, and an initial repayment plan by instalments will be prepared. Further action will be taken in accordance with that plan.	A suitable arrangement should be made with the bank for the repayment of the outstanding loan and interest, and action should be taken accordingly.

(b)	Of the total inventory value of Rs.616,196,265 as at the end of the year under review, an amount of Rs. 93,593,747 represented slow-moving inventories that had remained for several years and values relating to inventories already sold but not removed from inventory. However, action had not been taken to settle these balances.	A committee has been appointed, and necessary adjustments will be made according to the decision of the committee. Inventories relating to Sala Global Village and E-Commerce will be corrected in the financial year 2025.	Values relating to inventories already sold but not removed from the inventory balance should be removed. Appropriate action should also be taken regarding slow-moving inventories in accordance with the decision of the Board of Directors.
(c)	Although the showroom obtained on a lease basis from a company at the Welipenna service area on the Southern Expressway had been closed and returned to the lessor on 1 December 2022, action had not been taken during the year under review to recover the refundable deposit of Rs.3,496,857 or settle outstanding rent, electricity and water charges amounting to Rs. 10,500,862 as at 31 December 2024.	Action will be taken to investigate and rectify this matter in the forthcoming year.	Immediate action should be taken to settle the outstanding rent, water and electricity charges and recover the refundable deposit.

3.3 Idle or Underutilized Property, Plant, and Equipment

	Audit Observation	Comments of the Management	Recommendation
(a)	The plant and Machinery and buildings belonging to the Keselwatta Project, valued at Rs. 3,988,500, had remained idle since the project was closed in 2009 and had not been used for any operational purpose. Nevertheless, operating expenses totalling Rs.1,077,386 had been incurred during the year for their maintenance.	Although the machinery and equipment belonging to the Keselwatta Project remained idle, security officers had been deployed for their protection, and electricity and water charges were being paid.	A suitable plan should be prepared to make productive use of the relevant machinery and equipment and implemented accordingly in order to minimize operating expenses.

(b)	The premises of Approximately 40,830 square feet of Fort Showroom building had remained idle for a long period due to its dilapidated condition. Action had not been taken to renovate and utilize the building.	A substantial amount of expenditure would be required to renovate the Fort showroom building, which the Board is currently unable to finance. Therefore, arrangements will be made to renovate the building through external parties under a Public-Private Partnership (PPP) arrangement.	A suitable plan should be prepared to renovate the building and utilize it productively, and action should be taken accordingly.
(c)	Seven other current accounts, including the Museum current account that had become inactive during the year under review, had remained inactive for a long period. The total balance of these accounts was Rs.779,173. No adequate attention had been given to closing these accounts and utilising the relevant funds for appropriate purposes.	Action will be taken to transfer the funds held in these inactive current accounts to the main current account. These current accounts will subsequently be made available for branches that are scheduled to commence operations in the future.	Balances held in inactive bank accounts should be transferred to active accounts and the relevant inactive accounts should be closed.

3.4 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	According to Guideline 8.9.1(b) of the 2006 Procurement Guidelines, a formal agreement should be entered into for contracts for goods or services exceeding Rs. 500,000. However, as at 4 June 2025, a formal agreement had not been entered into in respect of the security services contract valued at Rs. 14,335,375. Furthermore, an amount of Rs. 2,350,406 had been paid to the contractor for March and April 2025 without entering into a formal agreement.	Procurement activities will be carried out in accordance with the Procurement Guidelines in the future.	When obtaining services, formal agreements should be entered into in accordance with the Procurement Guidelines. Appropriate action should be taken against officers who obtained services and made payments without entering into the required agreement.

(b)	According to Guideline 5.4.8 of the 2006 Procurement Guidelines, when awarding a contract, performance security of not less than 10% of the estimated contract value should be obtained and should remain valid for a period extending 28 days beyond the scheduled completion date. However, in relation to the manpower services contract, the performance security obtained from the selected institution was Rs. 897,052 less than required amount and was valid only up to the expiry date of the contract, rather than for the required additional period.	Future procurement activities will be carried out in accordance with the Procurement Guidelines.	Performance security should be obtained at the required amount and validity period before entering into the contract, in accordance with the Procurement Guidelines.