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SRI LANKA HANDICRAFTS BOARD

MISSION

TO BUILD AN ECONOMICALLY VIABLE, SOCIALLY RESPONSIVE
MARKETING ORGANIZATION FOR PRESERVING AND DEVELOPING
THE TRADITIONAL SKILLS OF THE CRAFTSMEN
AND CONTRIBUTING TO THE PRESERVATION OF CRAFTS
WHICH FORM AN INTEGRAL PART OF THE
NATIONAL HERITAGE.

CORPORATE INFORMATION

NAME IF TGE BOARD

Sri Lanka Handicrafts Board

LEGAL FORM

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

HEAD OFFICE

No. 60, York Street, Colombo 01

Telephone: 323523, 323514.

Fax: 94-11-2446582

E-Mail: laksala@itmin.com

chair@itmin.com

eds@itmin.com

Website: www.laksala.lk

SALES INQUIRES

Local – 329247

Export – 323635

BANKERS

People's Bank

Bank of Ceylon

AUDITORS

Auditor General's Department

CORPORATE INFORMATION

BRANCH / REGIONAL OFFICE NET WORK

Laksala Outlets	Telephone No.
Fort – No.60, York Street, Colombo 01	323513/323514
Thunmulla. No.215, Bauddhaloka Mw., Thunmulla, Colombo 07	580579
Galadaru – Hotel Galadari, Colombo 01	544544
Bambalapitiya- No.6, Govt Plats, Colombo 04	
Galle – 7a, Sea Street, Galle	09-22783
Kandy – 05, Sangaraja Mw., Kandy	08-222087
Matara – 55, Dharmapala Mw., Matara	041-22734
Kurunegala – 1ts Floor, Central Super Market, Kurunegala	037-22462
Nuwara Eliya – Udupussellawa Road, Nuwara Eliya	052-22575
Matale – Trincomalee Street, Matale	066-23164
Katubedda – 282, Galle Road, Katubedda. Moratuwa	01-605600
Bentota – 23.Holiday Resprt, Galle Road, Bentota	034-70466
Moralalla – 82, Galle Road, Moragalla, Aluthgama	034-77138
Tangalle – 35, Beliatta Road, Tangalle	047-42305
Project	
Carpentry - 282, Galle Road, Katubedda, Moratuwa	01-605638
Taxtile – Artline Textile Project, Polgolla	08-494645
Ceramic – 739, Waragoda Road, Galborella, Kelaniya	01-911016
Crafts Training Regional Office	
Kandy/ Matale/ Nuqwara Eliya/ Anuradhapure/ Polonnaruwa Sri Lanka Handicrafts Board, Regional Office, Artline Textile Project, Polgolla	08-494646
Gampaha – S.L.H.B. Regionla Office, No.2, Vihara Mw., Gampaha	033-23930
Kaluthara/ Colombo – S.L.H.B. Regionla Office, Handicrafts Training Institute, Katubedda, Moratuwa.	01-632402
Galle/ Matara/ Hambantota, Regional Office, Laksala, Galle	09-44132
Kegalle/ Ratnapura- S.L.H.B. Regional Office, Molagoda, Keggale	035-28593
Kurunegala / Polonnaruwa/ Puttalm S.L.H.B. Regionla Office, Janakala Kendraya, Kandy Road. Kurunegala	037-24448

Objects of the Board

- (1) promote the expansion of the production of handicrafts in Sri Lanka and the improvement of their quality
- (2) Promote the sale and marketing of handicrafts of Sri Lanka both in Sri Lanka and abroad.
- (3) Do all such acts which in the opinion of the board are necessary for the attainment of the objects specified in paragraphs (a) and (b).

POWERS. FUNCTIONS AND DUTIES OF THE BOARD

01. Establish, maintain and operate and assist in the establishment. Maintenance and operation of centers, workshops or other institutions for the purpose of creating or adopting designs to be used in the production of handicrafts and the marketing of goods produced at such centers, workshops or other institutions
02. provide machinery, equipment and raw materials required for the production of handicrafts.
03. Procure, provide and distribute raw materials required for the production of handicrafts
04. Give such assistance as may be necessary be way of medium term and short term credit facilities to craftsmen.
05. Provide for the training of craftsmen.
06. Expand the production of handicrafts and to improve the quality of the raw materials used for such production and of the finished products.
07. Corporate with scientific and technical institutions, organizations and agencies for the improvement of crafts materials and craft production techniques.
08. Maintain shops and showrooms both in Sri Lanka and abroad, for the display and sale of handicrafts and conduct displays, exhibitions and sale and to do all things incidental to such sales.
09. Promote the sale of handicrafts both in Sri Lanka and abroad and their export.
10. appoint such officers and servants as may be necessary for carrying out the work of the Board
11. Establish a provident fund ad provide welfare and recreational facilities, houses, hotels and like accommodation for persons employed by the Board
12. Make rules in respect of the administration of the affairs of the Board
13. Acquire, hold, take of give on lease or hire, mortgage, pledge, sell or otherwise dispose of any movable or immovable property.
14. Charge fees for any services or facilities provided by the Board
15. Do all such acts or things as are incidental consequential upon the exercise, performance, discharge of its powers, duties and functions

CORPORATE OBJECTIVES

- To be the leader in the Sri Lanka Handicrafts market and to sustain this position.
- To be the leader in the export of Sri Lanka handicrafts and to sustain this position.
- To maintain an adequate rate of growth of the organization
- To achieve a planned growth expansion of activities and performance levels.
- To continue to sustain the financial viability of the organization.
- To achieve efficiency the utilization and management of resources.
- To foster, protect and uplift the crafts and improve living standards of the crafts community.
- To provide training facilities to rural youth to gain skills in domestic crafts by utilization of

Raw materials available locally and to assist them to engage in self-employment to alleviate poverty.

MEMBERS OF THE BOARD

01.	Mrs. S.Wickremasinghe	Chairperson
02.	Mr. G. Priaratne	Member
03.	Mr.D.M.T.S.Dissanatake	Member
04.	Mr. R.M.N.Rathnayake	Member
05.	Mr. J.A.S.K.Jayakody	Member
06.	Mrs. S.M. Karunaratne	Member –Finance Ministry Representative
07.	Mrs. W.M.K.R.Balachandra	Member – Trade Ministry Representative

SRI LANKA HANDICRAFTS BOARD

REPORT OF THE DIRECTORATE OF THE SRI LANKA HANDICRAFTS BOARD

FOR THE YEAR ENDED 31ST DECEMBER 2002

Review of the Year

The Sri Lanka Handicrafts Board better known as “Laksala” began its operation on 4th November 1964. Upon its incorporation by Act No. 35 of 1982

The Sri Lanka Handicrafts Board was under the purview of the Ministry of Enterprise Development Industrial Policy Investment Promotion & Constitutional Affairs from 14th December 2001 and the present Board of Directors was appointed subsequently.

FINANCIAL STRUCTURE

The capital structure of the Sri Lanka Handicrafts Board is as follows

	2002	2001	2000	1999
Capital	510,806	510,806	510,806	510,806
Revaluation Reserves	50,841,543	50,841,543	50,841,543	50,841,543
Profit/ (loss) Carried Forward	(44,386,738)	(32,786,751)	(22,369,943)	(13,509,427)
	6,965,611	18,565,598	28,982,407	37,842,922

SRI LANK HANDICRAFTS BOARD

Performances

Purchasing Division

During the year under review, Handicrafts valued Rs. 54.3 million was purchased from the registered craftsmen, as compared with the purchases of Rs. 55.9 million in the previous year. This is approximately 3% decline in purchasing when compared with the previous year. The detailed break down of the purchase done is given below.

Category	Value	2001	2002
A- Silver items & Gems	Rs. 6,300,760	10.36%	11.60%
B- Brass & Silver Plated	Rs. 12,031,294	23.63%	22.15%
C- Reed, Rush & Leather	Rs. 11,105,130	20.06%	20.45%
D- Coir, Pottery & Toys Miscellaneous	Rs. 3,211,432	6.76%	5.91%
E- Handloom Textiles	Rs. 2,811,951	8.37%	5.16%
F- Wood Carving, Masks, & Lacquer	Rs. 12,326,266	20.29%	20.70%
G- Batik, Lace & Embroidery	Rs. 6,519,017	10.53%	12.00%

The Board during the year under review, specially during the first 6 months was compelled to control purchases due to severe financial constraints. However, the new management which assumed office in March 2002, managed to improve the situations and increase the purchases during the 2nd 6 months of the year. The value of purchases done during the first 6 months Rs. 20.67 million was increased to Rs. 32.62 million during the 2nd six months.

SRI LANKA HANDICRAFTS BOARD

Marketing Division

The Sales Network of the Board during the year under review was comprised of 18 outlets including the Main Emporium in Colombo Fort. Sales revenue collected through this network was Rs. 95 million during the year and the percentage increase over the last year is 4%. Since the beginning of the Board had been facing severe financial difficulties that lead to limited supply of merchandise and as a result the expected sales revenue during the 1st six months was not achieved.

However, the Board managed to improve the domestic sales turnover during the 2nd six months of the year and recorded as operational profits during the months of August & December.

Achievement of sales targets during the year 2002 is as follows.

	Actual(2002)	Budget(2002)	Actual(2002)
Local Sales	95,382	160,000	91,820
Exports	2,231	8,000	5,821

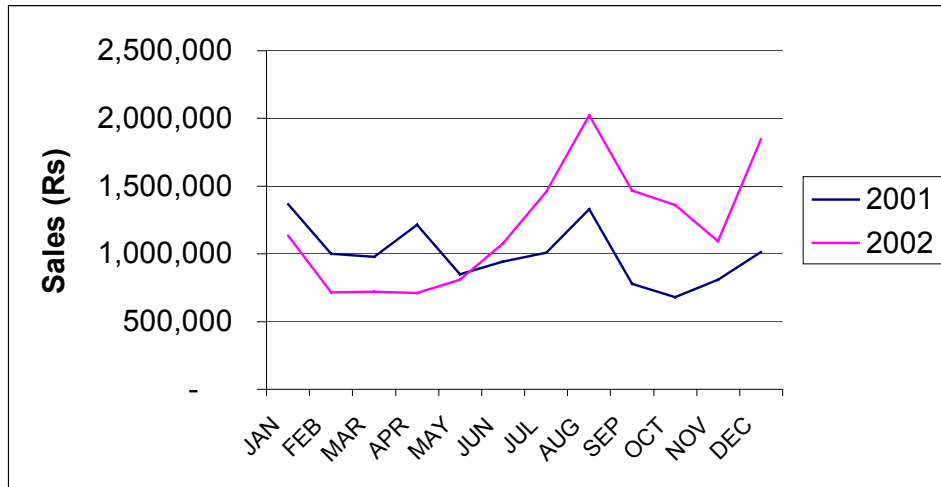
Facilities/buildings of Laksala branches at Thunmulla Junction, Kandy and Kurunegala were upgraded during the year and a programme has been implemented to refurbish the Fort Emporium in few stages.

Operations of sales outlets, Hikkaduwa, Anuradhapura and Ratnapura were suspended due to the heavy losses recorded continuously.

Board explored the possibilities of expanding export sales, and appointed franchise agent in USA to promote sales in the region. Business links were also established with Kuwait during the year under review.

“Athkam 2002” National Handicrafts Exhibition was conducted at the Colombo Art Gallery by the Board during the month of December, to commemorate the 38th Anniversary of Laksala.

Viskam Nivasa at Thummulla



Laksala Fort



The Turnover for the year 2002 as compared with previous two years was as follows.
Rs.'000

	2002	2001	2000
General Trading	95,382	91,820	106,684
Export	2,231	5,821	4,432

General Trading

The Turnover of the General Trading for the year 2002 was Rs. 95,382 Million. Gross Profit margin of General Trading for the year 2002 was 75% as compared to 66% in 2001.

Administration Division

The Administration Division is responsible for the management of Human Resources of the Sri Lanka Handicrafts Board and the Craft Training Division.

Total employee strength

	2002	2001
Executive	18	16
Clerical and Allied Cadre	257	262
Others		
Casual	04	07
Total	279	285

New recruitment was not made during the year.

A total sum of Rs. 541,644 Mn was paid as gratuity to 06 employees during the year and Rs. 877,935 was to paid to employees as reimbursement of medical expenses under the medical assistance scheme.

Out of this Rs. 150,970 was paid under the major surgery category.

Production Units

The three main production units namely, Katubedda Carpentry, Waragoda Pottery & Polgolla Handloom recorded a percentage declined in their sales over the previous year. Cost effective measures have been taken to reduce operating costs to make these products competitive in both local and export markets. There are ample opportunities in the export market for high quality furniture, utility and ornamental ceramic goods and handloom textiles. The possibilities of securing the export orders are being aggressively perused.

Acknowledgement

I would like to take this opportunity of expressing our appreciation to Hon. G.L. Peiris, Minister of Enterprise Development, Industrial Policy, Investment Promotion & Constitutional Affairs whose leadership and advise assisted this Board throughout his tenure as our minister. We also take this opportunity to thank our secretary and the officials of the Ministry who were available for us with their guidance at all times.

We also wish to thank our employees without their support and efforts our Board would not have been able to produce the results presented in this report. Finally I wish to thank the members of our Board of Directors for the guidance given by them to put the organization into a firm footing.

R.M.N. Rathnayaka
Acting Chairman
For Board of Directors

SRI LANKA HANDICRAFTS BOARD

The year in brief – Board

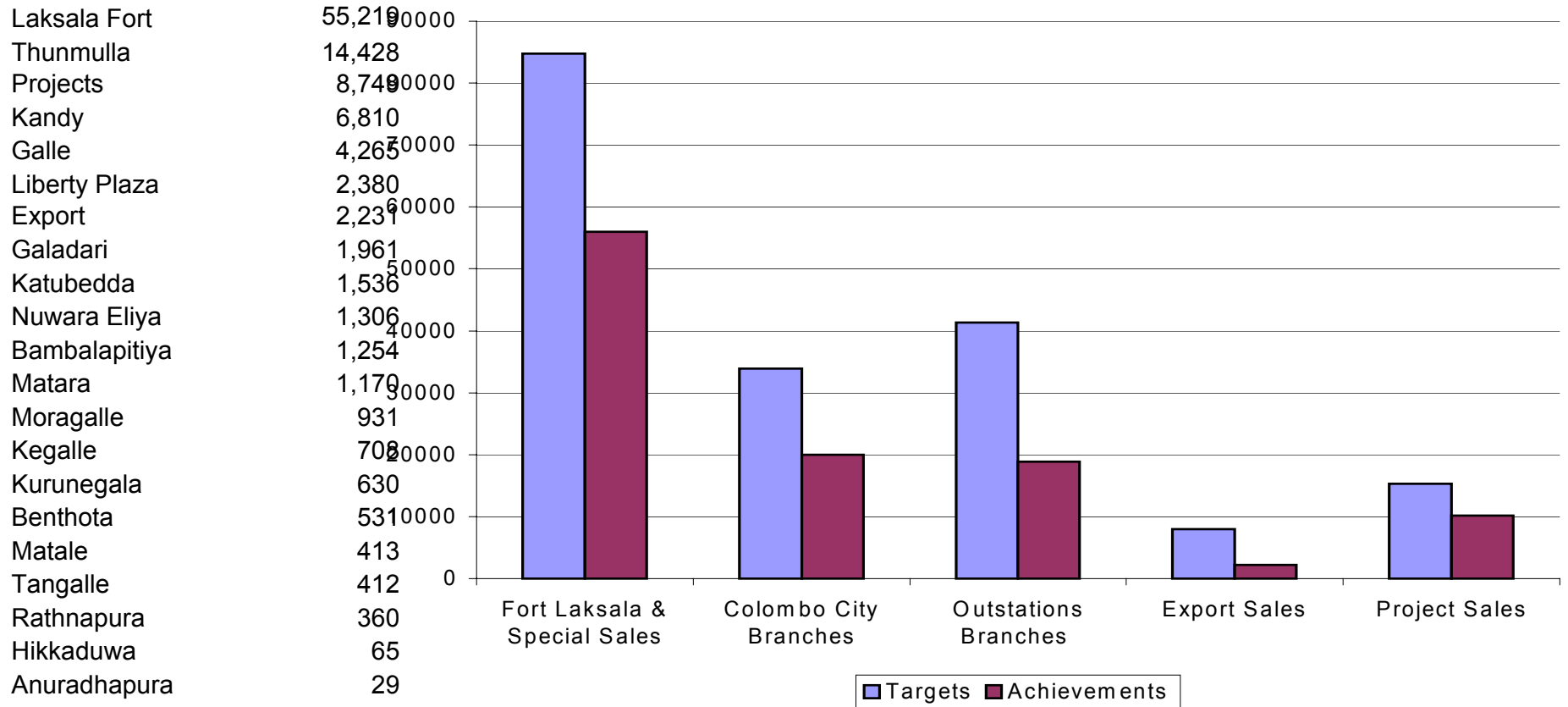
	2002 Rs.'000	2001 Rs.'000
Turnover General Trading	95,382	98,608
Export	2,231	5,821
Gross Profit/(Loss)	41,648	38,539
Operating expenses	(53,167)	(52,072)
B.T.T.,	(954)	(918)
Income from Other Sources	4,684	6,444
Net Profit/(Loss) before Income Tax	(6,835)	(7,089)
Income Tax	-	-
Retained Profit/(Loss)	(44,387)	(32,787)
	With per year	
Working Capital	(13,421)	(23,649)

SRI LANKA HANDICRAFTS BOARD CRAFTS TRAINING

Year in Brief

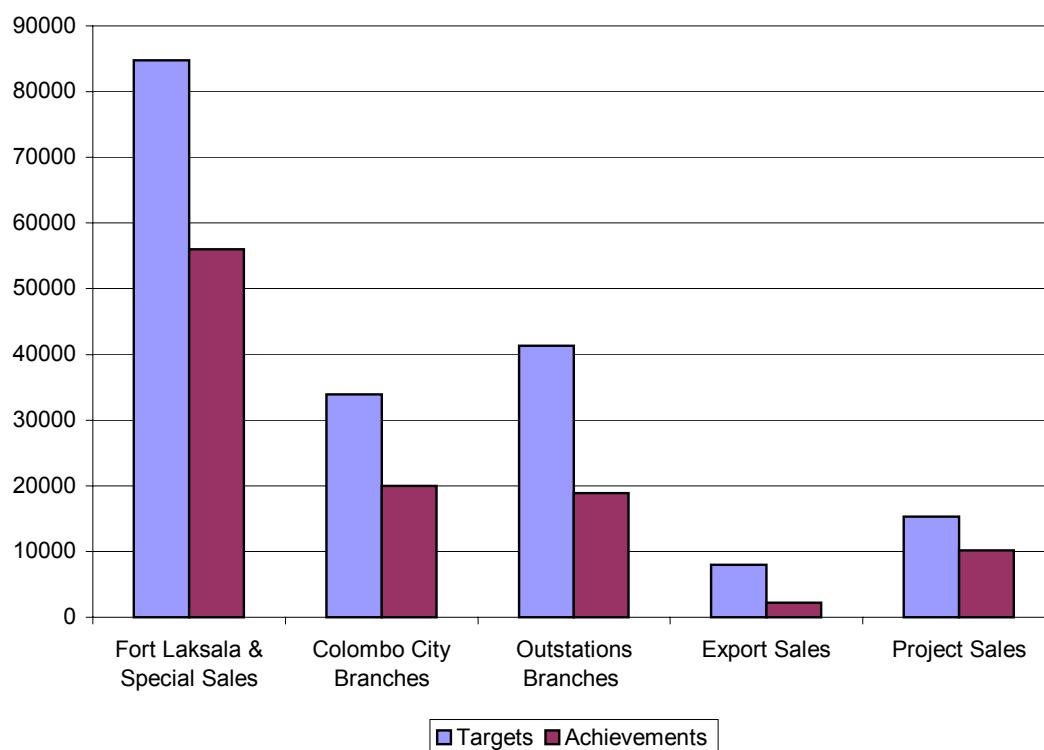
	2002	2001
	Rs.	Rs.
Capital Grant		
Grant from the Treasury	4,717,028	1,686,621
Recurrent Grant		
Grant from the Treasury	33,722,420	30,700,000
Monthly Stipend & other Direct expenses	2,509,191	2,644,130
Administration & Establishment Expenses	32,231,444	27,941,566
Financial expenses	33,651	1,383,985
Number of Youth trained	1,758	3,585
Cost per Trainee		
Direct	1,427	738
Indirect	18,353	8,180
No. of Training Centres	180	180

Sri Lanka Handicrafts Board Sales Analysis 2002



Sales Performance –2002 Targets & Achievements

	Targets	Achievements	Rs 000/=
			% Achieved
Fort Laksala & Special Sales	84816	55968	66%
Colombo City Branches	33869	19966	59%
Outstations Branches	41316	18907	46%
Export Sales	8000	2231	28%
Project Sales	15336	10166	66%
Total	183337	107238	58%



Colombo Branches

Thunmulla, Liberty Plaza, Bambalapitiya, Galadari

Outstations Branches

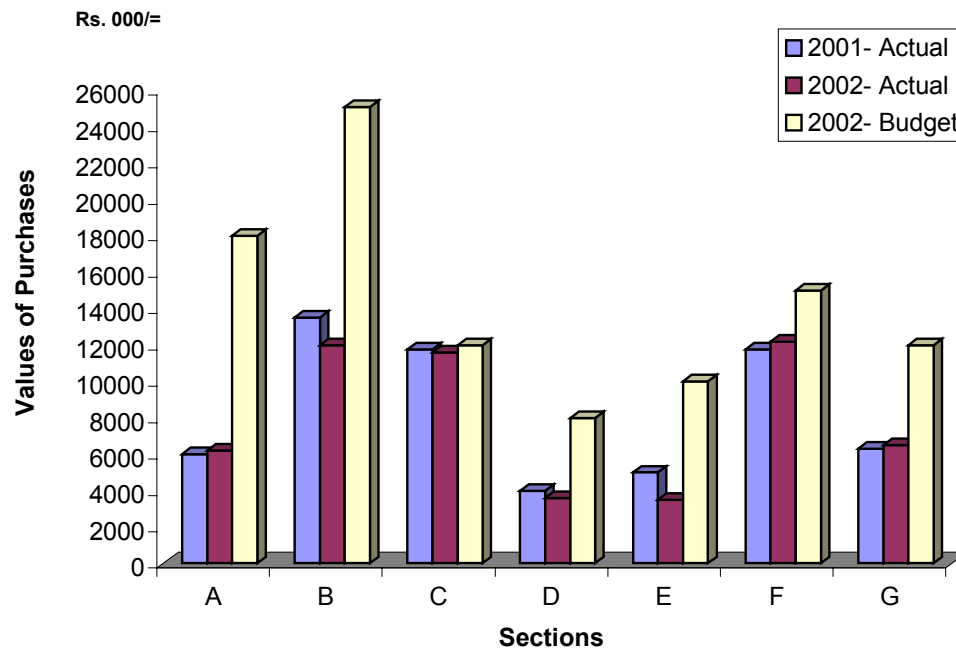
Katubedda, Kandy, Galle, Matara, Bentota, N'Eliya, Matale, K'Galle, Kurunagala, Hikkaduwa, Moragalle, Rathnapura, Thangalle, Anuradapura

Projects

Katubedda- furniture, Watragoda- Ceramics, Pollgolla - Handloom

Sri Lanka Handicrafts Board

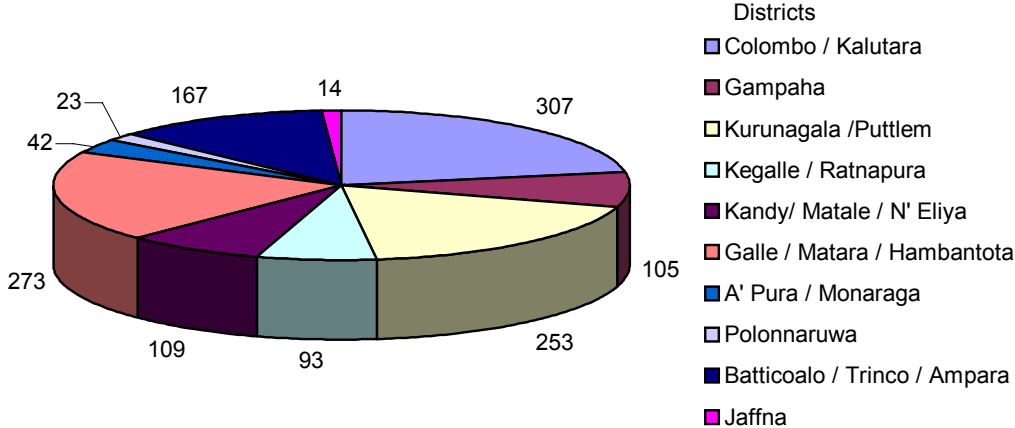
Purchases Performance



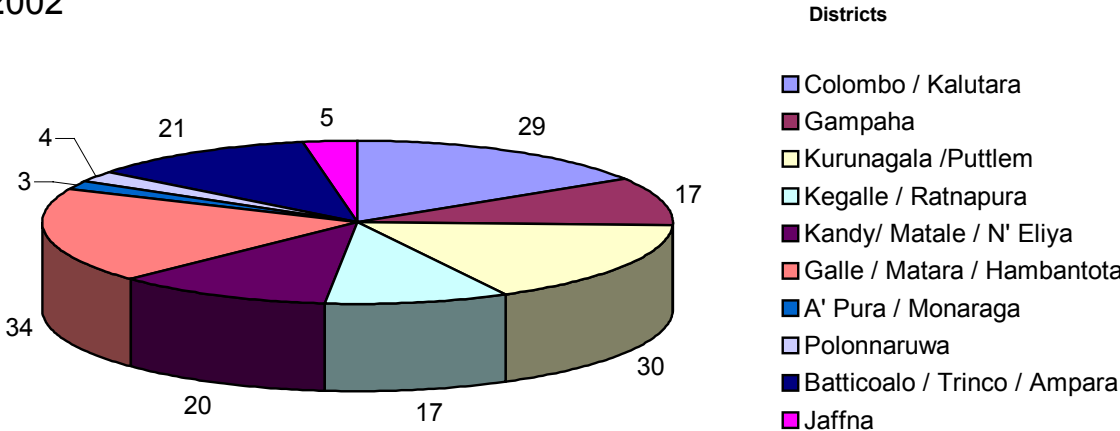
- A- Jewellery & Silver
- B- Brass & Silver Plated
- C- Reed & Rush ware
- D- Coir & Pottery
- E- Handloom & Textile
- F- Wood Carving & Mask
- G- Batik Garments

Sri Lanka Handicrafts Board – Crafts Training Division

No Of Trainees trained in 2002

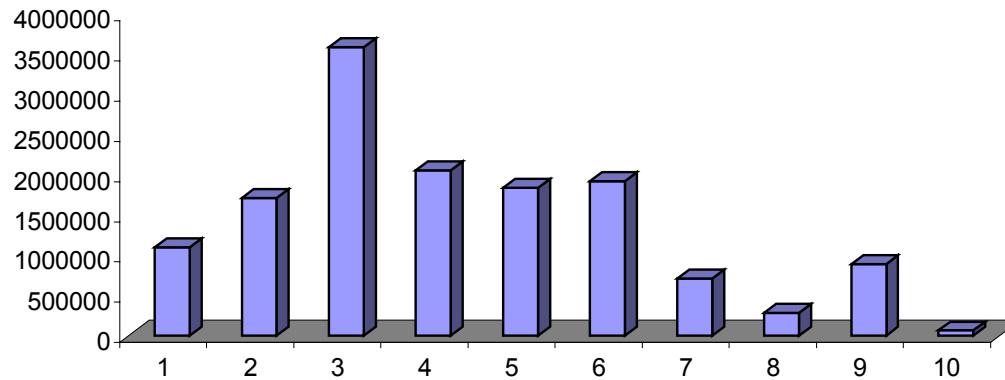


Distribution of Centres - 2002

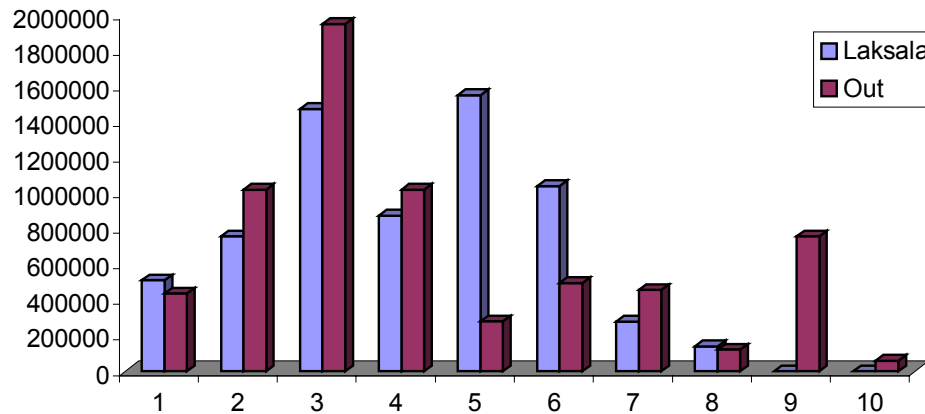


Sri Lanka Handicrafts Board – Crafts Training Division

Production Performance 2002



Sales Performance 2002



1. Colombo/ Kalutara
2. Gampaha
3. Kurunagala/ Puttlem
4. Kegalle / Rathnapura
5. Kandy/ Matale/ N'Eliya
6. Galle/ Matara/ Hambantota
7. A'pura/ Monaragala
8. Polonnaruwa
9. Batticaloa/ Trinco/ Ampara
10. Jaffna

SENIOR MANAGEMENT STAFF

Managing Director	Mr. S. Pulukkody (W.E.F. 3 rd June 2002)
Executive Director (Local Sales & Exports)	Mr. H. Manamperi (Local Sales – W.E.F. 29 th August 2002)
Executive Director (Purchases & Product Development)	Mr. L.B. Rodrigo
Executive Director (Crafts Training)	Mr. R. Nagodawithana (Actg.) (W.E.F. 1 st October 2002)
Executive Director (Administration)	Mr. P.W. Dharmawansa (W.E.F. 10 th October 2002)
Chief Internal Auditor	Mr. K.P.P.S.K. Pathirana (W.E.F. 10 th October 2002)

Management Staff

Deputy Directors

Mr. W.M. Chandrarathne (Acting)
Mr. R. Wijerathna (Acting)

Crafts Training
Crafts Training

Accountants

Mrs. L.M.E. Perera
Mrs. S.R.M. Perera

Assitant Directors

Mr. A.U.D. Perera
Mrs. Nalani Mathotage
Mr. C.N. Dahanayake
Mr. L. Ramawaickrema

Stores
Administration
Acting – Administration
Local Sales & Marketing
Promotion
Acting Board Secretary
Crafts Training
Crafts Training
Crafts Training
Crafts Training
Carpentry Project
Tape Lace

Mrs. A.R.C. Menike
Mrs. D. Amarathunga
Mr. R.M. Weerasooriya Banda
Mr. K.D. Abeywardhana
Mr. S. Rajkaruna
Mrs. V.E.N. De Mel

Senior Managers

Mr. L.A.D.D. Hettiarachchi
Mrs. Malani Siriwardana
Mr. M.P.C Perera
Mrs H. Sonnadara
Mr. N.G. Mahinda
Mrs. N.K.K. Wijesekara
Mrs. Jayanthi Lekamge
Mr. R.J. Wickremasinghe

Export
Sales
Sales
Purchases
Ceremic Project (Wragoda)
Crafts Training
Crafts Training
Administration

SRI LANKA HANDICRAFTS BOARD

NOTE 1 – NOTES ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2002

A Summary of the important Accounting Policies is set out below.

1.1 General Policies

The financial statements of the Sri Lanka Handicraft Board comprising the Balance Sheet, income statement, Statement of changes in equity, the Cash flow Statement, Accounting Policies and notes to the financial statements are prepared on the basis of the historical cost conventions, and in conforming with generally Accepted accounting principles and accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka. These principles and standards have been applied consistently with that of the previous year. No adjustments are made for inflationary factors affecting these financial statements.

1.1.2 Previous years figures and phrases have been re-arranged wherever necessary to conform to the current presentation

1.2 Valuation of Assets

1.2.1 Inventories

Inventories are valued at the lower of the cost and estimated net realizable value after deducting damage items.

1.2.2 Debtors – Receivable

Debtors are stated at their sales value.

1.2.3 Properties, Plants Equipment

1.2.3.1 Cost

Property, Plants & Equipment are recorded at cost less accumulated depreciation.

1.2.3.2 Leased Assets

Assets used by the S.L.H.B. which have been purchased through finance leases are capitalized and the resulting lease obligations are included in the creditors net of Finance charges applicable to future period.

1.2.3.3 Depreciation

The provision for depreciation is calculated on the cost of transferred value of all properties plant & equipments other than free hold land.

The rates used are as follows.

1. Buildings	- 1%
2. Machinery & Equipments	- 10%
3. Inventory Articles	- 10%
4. Motor Vehicles	- 10%
5. Leased Assets	- 10%

1.3 Income Statement

1.3.1 Turn Over

Turnover represents the amounts from the sales of goods.

1.3.2 Revenue and Expenses

Revenue is accounted for an accrual basis and matched with related expenditure. Interest income on fixed deposit interest bearing investments are counted on accrual basis in the income statement and such interest accounts are shown in the balance sheet under receivables.

1.4 Liabilities and Provisions

1.4.1 Retirement Gratuities

This item is grouped under retirement years. No. separate fund is being maintained for this purposes.

No. of Heads

05 - 10	73	2,053,255
10 - 15	104	4,749,328
15 - 20	49	4,629,190
Over 20Years	--	--
		<u>11,431,773</u>

1.4.2 Pensionable Scheme

Payable to pension Department according to Cabinet Decision made on 6th July 2000 and the Cabinet Paper No. amp/00/575/12/004 awarded Pension right to 20 employees by the government, who were earlier contributors to the EPF/ETF. The contribution made by the Board (i.e. 12% + 2%) Now been refunded and which is to be paid to the Pension Department.

SRI LANKA HANDICRAFTS BOARD

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Head Office Rs.	Projects Rs.	Total Rs.
Sales - Local	95,381,767	8,748,424	104,130,191
- Goods Transferred to Laksala	--	1,417,132	--
- Export	2,231,330		2,231,330
	97,613,097	10,165,556	106,361,521
Less: Turn Over Tax	(953,818)	--	(953,818)
	96,659,279	10,165,556	105,407,703
Cost of Sales	53,594,222	10,274,439	63,868,661
Goods Transferred from Projects	1,417,132	--	
Gross Profit / Loss	41,647,925	(108,883)	41,539,042
<u>Less: Operating Expenses</u>			
Admin. & Est. Expenses	47,404,466	1,631,049	49,035,515
Selling & Dist. Expenses	601,834	356,959	958,793
Finance Expenses	653,486	8,654	662,140
Export Expenses	4,507,381	--	4,507,381
	53,167,167	1,996,662	55,163,829
Net Profit (Loss) from Operations	(11,519,242)	(2,105,545)	(13,624,787)
Add: Interest on Investment	2,098,937	--	2,098,937
Other Income	2,410,267	133,915	2,544,182
Profit on Disposal asset	175,000	--	175,000
Net Profit (Loss) before Taxation	(6,835,038)	(1,971,630)	(8,806,668)
Net Profit after Taxation	(6,835,038)	(1,971,630)	(8,806,668)
Profit & Loss A/C Balance B/F	(32,786,751)	(7,971,817)	(40,758,568)
Prior year Adjustments	(4,764,949)	(22,619)	(4,787,568)
Profit & Loss A/C Balance C/F	(44,386,738)	(9,966,066)	(54,352,804)

SRI LANKA HANDICRAFTS BOARD

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	2002 Rs.	2001 Rs.
Sales - Local	01	95,381,767	98,608,221
- Export		2,231,330	5,820,502
		97,613,097	104,428,723
Less: Turn Over Tax		(953,818)	(918,202)
		96,659,279	103,510,521
Cost of Sales	02	53,594,222	64,971,799
Gross Profit / Loss		43,065,057	38,538,722
 <u>Less: Operating Expenses</u>			
Admin. & Est. Expenses	03	47,404,466	41,565,634
Selling & Dist. Expenses	04	601,834	1,294,976
Finance Expenses	05	653,486	8,658,449
Export Expenses	06	4,507,381	553,252
		53,167,167	52,072,311
Net Profit (Loss) from Operations		(11,519,242)	(13,533,589)
Add: Interest on Investment		2,098,937	1,576,660
Other Income	07	2,410,267	3,169,692
Profit on Disposal asset		175,000	1,697,840
Net Profit (Loss) before Taxation		(6,835,038)	(7,089,397)
Net Profit (Loss) after Taxation		(6,835,038)	(7,089,397)
Profit & Loss A/C Balance B/F		(32,786,751)	(28,746,538)
Prior year Adjustments		(4,764,949)	(4,922,633)
Profit & Loss A/C Balance C/F		(44,386,738)	(40,758,568)

SRI LANKA HANDICRAFTS BOARD

BALANCE SHEET AS AT 31ST DECEMBER 2002

	Head Office Rs.	Projects Rs.	Total Rs.
<u>Non Current Assets</u>	98,213,780	(12,304,725)	85,909,055
Fixed Assets	7,203,005		7,203,005
	105,416,785	(12,304,725)	93,112,060
<u>Current Assets</u>			
Stocks	19,926,148	4,351,030	24,277,178
Debtors Deposits & Prepayments	44,077,217	8,079,621	52,156,838
Cash at Bank & in Hand	1,964,213	110,162	2,074,375
	65,967,578	12,540,813	78,508,391
Total Assets	171,384,363	236,088	171,620,451
<u>Capital & Reserves</u>	69,628,878		69,628,878
Vested by D.M.E.P.H.	4,000,000		4,000,000
Treasury Grant	510,806		510,806
Capital & Reserves	50,841,543		50,841,543
Revaluation Reserves	(44,386,738)	(9,966,066)	(54,352,804)
Accumulated Profit / (Loss)	80,594,489	(9,966,066)	70,628,423
<u>Non Current Liabilities</u>			
Provision for Gratuity	11,431,772		11,431,772
Provision for Taxation	3,147,975		3,147,975
Provision for Pension	618,051	355,153	973,204
	15,197,798	355,153	15,552,951
<u>Current Liabilities</u>			
Creditors & Accruals	58,645,131	8,694,702	67,339,833
Bank Overdrafts	16,946,945	1,152,299	18,099,244
	75,592,076	9,847,001	85,439,077
<u>Total Equity & Liabilities</u>	171,384,363	236,088	171,620,451

R.M.N. Rathnayake
Actg. Chairman
Sri Lanka Handicrafts Board

S.R.M. Perera – Accountant
For Executive Director (Finance)
Sri Lanka Handicrafts Board

SRI LANKA HANDICRAFTS BOARD

BALANCE SHEET AS AT 31ST DECEMBER 2002

	Note	2002 Rs.	2001 Rs.
Assets			
<u>Non Current Assets</u>			
Property, Plant and Equipment	08	98,213,780 <u>7,203,005</u>	99,291,133 <u>16,552,686</u>
Investments	09	105,416,785	115,843,819
<u>Current Assets</u>			
Stocks	10	19,926,148	20,872,088
Debtors Deposits & Prepayments	11	44,077,217	224,936,642
Cash at Bank & in Hand	12	<u>1,964,213</u>	<u>480,232</u>
		65,967,578	246,288,962
Total Assets		<u><u>171,384,363</u></u>	<u><u>362,132,781</u></u>
<u>Equity & Liabilities</u>			
<u>Capital & Reserves</u>			
Vested by D.M.E.P.H.		69,628,878	69,628,878
Treasury Grant		4,000,000	4,000,000
Capital & Reserves		510,806	510,806
Revaluation Reserves		50,841,543	50,841,543
Accumulated Profit / (Loss)		<u>(44,386,738)</u>	<u>(32,786,751)</u>
		80,594,489	92,194,476
<u>Non Current Liabilities</u>			
Provision for Gratuity		11,431,772	3,894,573
Provision for Taxation		3,147,975	3,276,091
Provision for Pension		<u>618,051</u>	<u>739,471</u>
		15,197,798	7,910,135
<u>Current Liabilities</u>			
Creditors & Accruals	13	58,645,131	238,451,637
Bank Overdrafts	14	<u>16,946,945</u>	<u>23,576,533</u>
		75,592,076	262,028,170
Total Equity & Liabilities		<u><u>171,384,363</u></u>	<u><u>362,132,781</u></u>

SRI LANKA HANDICRAFTS BOARD

Cash Flow Statement Year ended 31ST DECEMBER 2002

	2,002	2,001
	Rs.	Rs.
Cash flow from operating activities		
Net Profit (Loss) from operating activities		
Before Taxation (Except for Investment Income)	(9,108,975)	(8,666,057)
Adjustment for		
Depreciation	1,309,889	2,200,162
Other non Cash activities	-	(483,302)
Deferred Revenue Rent	66,667	66,667
Prior year adjustment	(4,764,949)	(4,922,633)
Profit (Loss) on sale of P.P & Equipment	<u>175,000</u>	<u>(1,697,840)</u>
Operating Profit (Loss) before working		
Capital Changes	(12,322,368)	(13,503,003)
(Increase)/Decrease in inventories	945,940	1,112,029
(Increase)/Decrease in Trade other receivables	180,859,425	(204,422,119)
(Increase)/Decrease in Trade other payables	<u>(172,518,843)</u>	<u>197,525,495</u>
Net cash from operating activities	(3,035,846)	(19,287,598)
<u>Cash flow from investing activities</u>		
Investment Income	2,098,937	1,576,660
Realization of Investment	16,552,686	15,765,866
Purchase of P.P & Equipment	(299,203)	30,027,778
Investment	<u>(7,203,005)</u>	<u>(16,552,686)</u>
Net Cash from financing activities		
Net Increase in cash & cash equivalents	8,113,569	11,540,020
Cash & cash equivalents at the beginning of the year	(23,096,301)	(34,636,321)
Cash & cash equivalents at the end of the year	<u>(14,982,732)</u>	<u>(23,096,301)</u>
(Note)		
Note	2002	2001
Cash & Cash Equivalents	(16,946,945)	23,576,533
Bank Overdrafts	<u>1,964,213</u>	<u>(480,232)</u>
Cash in Hand & Bank	<u>(14,982,732)</u>	<u>23,096,301</u>

SRI LANKA HANDICRAFTS BOARD

Statement of Changes in Equity for the Year ended 31ST DECEMBER 2002

	Vested By D.M.D.M.E.P.H.	TREASURY Grants	Capital Reserve	Revaluation Reserves	Accumulated Losses	Total
Balance as at 31/12/2000	69,628,878	4,000	510,806	50,841,543	22,369,942	147,351,169
Net Loss for the period					7,467,747	7,467,747
Balance as at 21/12/2001	69,628,878	40,000	510,806	50,841,543	32,786,751	157,767,978
Balance as at 31/12/2001	69,628,678	40,000	510,806	50,841,543	32,786,751	157,767,978
Net Loss for the period					6,835,038	6,835,038
Prior year Adjustments					4,764,949	4,764,949
Balance as at 21/12/2002	69,628,678	40,000	510,806	50,841,543	44,386,738	169,367,965

SRI LANKA HANDICRAFTS BOARD

NOTE 01

SALES ANALYSIS – 2002

Laksala Fort	55,926,010
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Laksala Branches

Kandy	6,810,288
Liberty Plaza	2,380,476
Galle	4,265,381
Kegalle	708,013
Anuradhapura	29,493
Benthota	530,781
Nuwara Eliya	1,306,213
Rathnapura	359,894
Matara	169,801
Moragalle	930,713
Bambalapitiya	1,253,860
Kurunegala	630,090
Hikkaduwa	65,211
Tangalle	412,326
Thunmulla	14,428,038
Katubedda	1,535,915
Matale	413,231
Galadari	1,960,595
	<hr/>
	95,381,767
	<hr/> <hr/>

SRI LANKA HANDICRAFTS BOARD

NOTE 02

Cost of Sales

Opening Stock		19,501,627
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Add

Purchases	54,306,285	
Goods Transfer from Projects	1,417,132	55,723,417
		<hr/>
		75,225,044

Less

Closing Stocks		20,213,690
		<hr/>
		55,011,354
		<hr/> <hr/>

SRI LANKA HANDICRAFTS BOARD

NOTE 03

Administration & Establishment Expenses

	Rs.
Casual Wages	234,391
Salaries & Allowances	24,235,926
Overtime	1,451,124
Incentive / Bonus	239,863
Warrant & Ticket	38,624
E.P.F. & E.T.F.	2,254,229
Pension Contribution	606,074
Gratuity	922,263
Special Allowances	152,424
Staff Welfare	592,553
Uniform & IDS	204,524
Traveling – Local	539,364
Traveling – Foreign	13,702
Staff Training	5,902
Medical Expenses	866,083
Director Fees	37,980
Audit Fees	271,288
Vehicle License Fees	314,471
Legal Fees	51,426
Advertisement	103,381
Security Service	937,830
Printing & Stationary	762,570
News Papers & Periodicals	24,634
Postage / Tele / Telex	1,434,112
Fuel & Lubricants	1,098,164
Tools & Implements	402
Stock Verification	165,306
Other Expenses	76,237
Trade License Fees	33,432
Computer Expenses	57,055
Rent / Rate / Tax	3,461,271
Insurance	128,038
Water Bill	394,362
Electricity	1,971,689
Rep & Maint – Building	815,727
- Machinery	342,192
- Vehicles	1,246,960
- Others	26,687
Depreciation – Building	335,963
- Machinery & Equip	343,092
- Vehicles	414,432
- Office Equip	128,126
- Furniture & Fittings	70,593
	<u>47,404,466</u>

SRI LANKA HANDICRAFTS BOARD

NOTE 04

Selling & Distribution Expenses

	Rs.
Commission & Discounts	60,385
Product Publicity	93,367
Fairs & Exhibitions	148,708
Packing Materials - Local	179,906
Special Services	96,572
Re. & Maintenance Purchased Goods	13,352
Re. & Maintenance Engraving Charges	2,734
Transport	6,810
	<u>601,834</u>

NOTE 05

Export Expenses

	Rs.
Packing Materials	104,178
Export Promotions	344,866
Insurance & Freight Charges	192,812
Others	11,630
	<u>653,486</u>

NOTE 06

Finance Charges

	Rs.
Overdraft Interest	4,300,143
Bank Charges	207,238
	<u>4,507,381</u>

NOTE 07

	Rs.
Interest on Investments	2,098,937
Miscellaneous Income	2,410,267
Profit on Disposal of assets	175,000
	<u>4,684,204</u>

SRI LANKA HANDICRAFTS BOARD

NOTE 08

Property Plant & Equipment

	Balance as at 01.01.2002	Additions	Deposits	Balance as at 31.12.2002
Cost				
At Cost				
Land	70,891,000	-	-	70,891,000
Building	28,358,548	-	-	28,358,548
Machinery & Equipment	5,560,892	-	-	5,560,892
Leased Assets (Computers)		236,643	-	236,643
Motor Vehicles	6,660,347	-	-	6,660,347
Inventory Articles	3,044,733	49,585	-	3,094,318
Furniture & Fittings	2,122,640	12,975	-	2,135,615
	-	-	-	-
Total Value of Assets	<u>116,638,160</u>	<u>299,203</u>		<u>116,937,363</u>
Asset on Lease				
Building	<u>2,000,000</u>			<u>2,000,000</u>
Total Value of Depreciable Assets	<u>118,638,160</u>			<u>118,937,363</u>
	Balance as at 01.01.2002	Additions	Deposits	Balance as at 31.12.2002
Depreciation				
At Cost				
Land				
Building	3,908,267	340,561	-	4,248,828
Machinery & Equipment	4,526,860	347,787	-	4,874,647
Motor Vehicles	6,008,287	420,103	-	6,428,390
Inventory Articles	2,501,440	129,879	-	2,631,319
Furniture & Fittings	1,668,838	71,559	-	1,740,397
	-	-	-	-
Total Value of Assets	<u>18,613,692</u>	<u>1,309,889</u>		<u>19,923,581</u>
Asset on Lease				
Building	<u>733,335</u>	<u>66,667</u>		<u>800,002</u>
Total Depreciation	<u>19,347,027</u>	<u>1,376,556</u>		<u>20,723,583</u>
Net Book Value				
At Cost	98,024,468			97,013,782
On leases	1,266,665			1,199,998
Total Carrying Amount of Depreciable Property, Plant & Equipment	<u>99,291,133</u>			<u>98,213,780</u>

SRI LANKA HANDICRAFTS BOARD

NOTE 09

INVESTMENTS

Fixed Deposits

P.B. Mudalige Mawatha

Rs.

12322	-	4,000,000	
12346	-	3,000,000	
3560	-	<u>176,897</u>	<u>7,176,897</u>

N.S.B.

15800	-	13,054	
15770	-	<u>13,054</u>	<u>26,108</u>
			<u><u>7,203,005</u></u>

SRI LANKA HANDICRAFTS BOARD
PHYSICAL VERIFICATIONS OF STOCKS & FIXED ASSETS AS AT 31ST
DECEMBER 2002

NOTE 10

Fort Showroom

Section	A	2,283,756.00	
Section	B	937,431.00	
Section	C	406,946.01	
Section	D	434,352.70	
Section	E	711,680.98	
Section	F	1,957,475.60	6,731,642.29

Main Stores

Stores	A	168,650.00	
Stores	B	360,833.00	
Stores	C	406,946.01	
Stores	D	170,879.00	
Stores	E	213,124.20	
Stores	F1	188,282.30	
Stores	F2	214,491.50	
Export		96,848.71	1,820,054.72

Laksala Outlets

Kandy		956,209.42	
Liberty Plaza		502,575.60	
Galle		897,117.46	
Kegalle		367,756.93	
Benthota		293,351.86	
Nuwara Eliya		756,128.59	
Rathnapura		113,709.00	
Matara		501,631.14	
Moragalle		379,307.95	
Bambalapitiya		339,757.61	
Kurunegala		550,656.28	
Tangalle		379,920.37	
Thunmulla		2,755,696.63	
Katubedda		882,636.95	
Matale		260,061.69	
Galadari		871,224.90	10,807,742.38

Projects

Waragoda		1,656,983.73	
Katubedda		2,877,602.80	
Polgolla		558,627.95	5,093,214.48
			24,452,653.87
Add: Shortages, Damages & Repairs			971,904.94
			25,424,558.81
Less: Excess Value			(460.00)
			25,424,098.81
Stationary Stores		566,708.65	
Add: Shortage Damages & Repairs		28,279.09	594,987.74

SRI LANKA HANDICRAFTS BOARD

NOTE 11 **DEBTORS, PREPAYMENT AND DEPOSITS**

	Rs.
Trade Debtors	3,748,107
Receivable Credit Cards	2,525,016
Textile Loan	80,400
Festival Loan	83,200
Staff Loan	92,115
Three months Loan	946,078
Flood Loan	1,544
Electricity Guarantee	3,842
Damages	1,445,311
Repair Items	304,663
Shortages	129,967
Receivable F.D. Interest	695,506
Receivable No Pay	66,590
Receivable Rent	1,227,700
Recoveries	49,610
Craftsman benevolent Fund	21,208
Ministry of T&R Ind. Dep.	74,639
Deposits - Printing & Stationary	288,000
Fuel	18,125
Rent	1,975
Telephone	63,519
Export Bank Guarantee	95,000
Security Deposit	45,000
Prepayment	361,111
Advance	5,986,351
Interest in Suspence	24,629
Payment to Small Industry	4,903,763
Refundable tape lace expenses	15,000
Project Net Liabilities	18,425,384
Security Deposits	6,006
Small Industries	101,608
Workers Bank	3,755
Comm. Of Inland Revenue	5,882
The Finance Co,	336,901
Singer Sri Lanka	2,903
National Housing Authority	18,333
Bank Deductions	12,570
Save the Nation Fund	5,046
P.A.Y.E.	17,035
Security Refund	4,867
Head Office C/A	1,838,958
	44,077,217
	44,077,217

SRI LANKA HANDICRAFTS BOARD

NOTE 12

Cash in Hand & at Bank

Kandy	A/c 1520100384	148,399
Liberty Plaza	A/C 1620005032	44,255
Galle	A/C 1420100221	13,769
Nuwaraeliya	A/C 119	125,741
Kurunegala	A/C 1420513388	34,538
Batticaloa	A/C 1532	23,791
Thummulla	A/C 219	530,972
Nugegoda	A/C No. 13200063230	19,048
Ambalanthoaca	A/C 6252	25,082
Galadari	A/C 151246	11,214
	Cash in Hand	834,175
	Cash Imp rest	153,229
		<u>1,964,213</u>

SRI LANKA HANDICRAFTS BOARD

NOTE 13

CREDITORS & ACCRUALS

Creditors & Accruals	Rs.
Small industries	14,551,646
Creditors - F/Emp	350,981
Creditors - P.L.C	241,560
Trade Creditors	6,485,117
Accrual Charges	7,747,387
Refundable Tender Deposits	33,906
Refund of C.T.O. Collection	7,501
Unpresented Cheques	75,148
Other Creditors	1,393,348
Refund of Security Deposits	11,542
W. & O.P.	11,858
Central Bank	87,338
NSB Housing Loan	134
Insurance	40,440
Laksala Welfare Society	10,045
HNB	278,383
J.S.S.	501
C.T.C. Eagle	5,708
R.P.S.S.	167
N.S.S.	937
Craft Center C/A	3,543,290
Rent & Rates Payable	9,812,310
Obsolete Stock	2,984,701
Project C/A/	8,136,876
N.S.B. Security Deposits	116,750
Contractor T.T.	47,000
Receivable Temporary Pension	2,670,557
	<hr/>
	58,645,131

SRI LANKA HANDICRAFTS BOARD

NOTE 14

BANK OVERDRAFTS

Mudalige Mawatha	A/C 1620064433	14,298,332
Bank of Ceylon	A/C 7470804925	1,645,578
Seylan Bank	A/C 012679-001	6,119
Anuradhapura	A/C 1529599892	76,364
Bentota	A/C 1519	90,911
Matara	A/C 609	190,849
Moragolla	A/C 513	94,820
Bambalapitiya	A/C 1320005023	161,826
Hikkaduwa	A/C 1420005015	16,999
Collpetty	A/C 60197	3,614
Tangalle	A/C 45142	27,856
Pettah	A/C 1420052421	161,887
Matale	A/C 2128	54,620
Katubedda	A/C 207	25,968
Kegalle	A/C 1420007993	38,222
Rathnapura	A/C 1620003021	52,980
		<hr/>
		16,946,945.00
		<hr/>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

Manufacturing A/C for the year ended 31st December 2002

	Note	Rs.	Rs.
Raw Materials			2,599,860
Op stock			<u>2,600,847</u>
Purchases			5,200,707
Less			
CL Stock			<u>(2,058,100)</u>
Raw Materials Usage			3,142,607
Add			
Direct Expenses		85,448	
Piece Rate & Stipend		<u>1,175,965</u>	1,261,413
Prime Cost			4,404,020
Add: Factory Overheads	1		<u>3,376,505</u>
			7,780,525
Add: OP W.I.P.			460,878
Less: CL W.I.P.			<u>(814,963)</u>
			<u><u>7,426,440</u></u>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

PROFIT & LOSS STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	Rs.
<u>Sales</u>		10,165,556
Cost of Sales	02	<u>(10,274,439)</u>
Gross Profit . (Loss)		(108,883)
<u>Less: Operating Expenses</u>		
Admin. & Est. Expenses	03	1,631,049
Sell & Dis Expenses	04	356,959
Finance & Expenses	05	<u>8,654</u>
		1,996,662
<u>Net Profit (Loss) from Operations</u>		(2,105,545)
Less: Other Income		<u>133,915</u>
<u>Net Profit / (Loss) for the year</u>		(1,971,630)
Profit & Loss A/C Balance B/F		(7,971,817)
Prior year Adjustments		<u>(22,619)</u>
<u>Profit & Loss A/C Balance C/F</u>		<u><u>(9,966,066)</u></u>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

BALANCE SHEET AS AT 31ST DECEMBER 2002

	Note	2002 Rs.	2001 Rs.
<u>NON CURRENT ASSETS</u>			
Fixed Assets		(12,304,725)	(11,017,224)
<u>CURRENT ASSETS</u>			
Stocks	06	4,179,555	7,388,665
Debtors, Deposits & Prepayments	07	8,251,096	14,455,692
Cash at Bank & in Hand	08	110,162	86,833
		<u>12,540,813</u>	<u>21,931,190</u>
Total Assets		<u>236,088</u>	<u>10,913,966</u>
<u>CAPITAL & RESERVES</u>			
Accumulated Profit / (Loss)		(9,966,066)	(7,971,817)
<u>NON CURRENT LIABILITIES</u>			
Provision for Pension		355,153	355,153
<u>CURRENT LIABILITIES</u>			
Creditors & Accruals	09	8,694,702	17,583,447
Bank Overdrafts	10	1,152,299	947,183
		<u>9,847,001</u>	<u>18,530,630</u>
Total Equality & Liabilities		<u>236,088</u>	<u>10,913,966</u>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

Note – 1

Factory Overheads

Salary	1,118,186
Overtime	78,636
Incentive	30,350
E.P.F. & E.T.F.	96,426
Tools & Implements	15,018
Electricity	251,394
R/M Machinery	44,439
Depreciation – Machi	1,741,556
- Tools	500
	<hr/>
	3,376,505
	<hr/> <hr/>

Note – 2

Cost of Sales

Opening Stock	4,271,684
Add: Goods transferred from Man A/L	<hr/> 7,426,440
	11,698,124
Less: Closing Stock	<hr/> (1,423,685)
	<hr/> <hr/> 10,274,439

SRI LANKA HANDICRAFTS BOARD

Note – 3

	<u>Rs.</u>
<u>Administration & Establishment Exp.</u>	
Casual & Wages	6,225
Salaries	372,728
E.P.F. & E.T.F.	96,424
Pension	28,369
Special Allowances	147,947
Staff Welfare	52,963
Traveling	104,162
Staff Training	7,500
Medical	75,369
Insurance	8,017
Security	368,786
Printing	25,965
Postage / Telephone	72,057
Other Expenses	28,112
Water	21,251
Electricity	83,797
R/M Building	95,143
Rent rate & Taxes	3,519
Dep. - Office Equipment	27,815
- Furniture & Fittings	4,900
	<hr/>
	1,631,049
	<hr/> <hr/>

Note – 4

	<u>Rs.</u>
<u>Selling & Expenses</u>	
Fuel	170,590
Rep. M. Vehicles	184,954
Packing Materials	1,225
Transport	190
	<hr/>
	356,959
	<hr/> <hr/>

Note – 5

	<u>Rs.</u>
<u>Finace Charges</u>	
Bank Int.	203
Bank Charges	8,451
	<hr/>
	8,654
	<hr/> <hr/>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

Note – 6

	<u>Rs.</u>
<u>Stocks</u>	
Polgolla Project	558,628
Waragoda Project	743,324
Velon Project	2,877,603
	<hr/>
	4,179,555
	<hr/> <hr/>

Note – 7

	<u>Rs.</u>
<u>Debtors, Deposits & Prepayments</u>	
Damages	171,475
Trade debtors – Waragoda	53,319
- Velona	1,981,928
Textile Loan	2,800
Festival Loan	5,600
Three Months Loan	16,577
Shortages	1,961
Receivable Temporary Pensions	101,200
Contractors Security Deposit	13,488
Sri Lanka Freedom Workers Society	1,915
W & O P	2,393
Laksala Welfare Society	210
Commissioner of Inland Revenue	575
R.P.S.S.	5
Suspense Account	2,745
Electricity Deposit	8,866
Purchase Advance	5,867,789
Fuel Deposit	5,000
Stipend Advance	13,250
	<hr/>
	8,251,096
	<hr/> <hr/>

SRI LANKA HANDICRAFTS BOARD

PROJECTS

Note – 8

	<u>Rs.</u>
<u>Cash at Bank & In hand</u>	
Waragoda Project	21,706
Polgolla Project	50,956
Velona Project	37,500
	<hr/>
	110,162
	<hr/> <hr/>

Note – 9

	<u>Rs.</u>
<u>Creditors & Accruals</u>	
Unpaid Bonus	2,250
W. & O P	86
Central Bank 8%	6,229
Laksala Welfare Society	19,251
Commissioner of Inland Revenue	50
Compensation Scheme	336
Bank Deductions	9,311
R.P.S.S.	5
Hatton National Bank	1,855
Security Deposit - N.S.B.	260
CTC Eagle	778
Accrued Accounts – Polgolla	116,969
- Waragoda	29,288
- Velona	512,553
Current Accounts (CT, Projects & H/O)	3,304,647
Advanced Supply Creditor	4,690,834
	<hr/>
	8,694,702
	<hr/> <hr/>

Note – 10

	<u>Rs.</u>
<u>Bank Overdrafts</u>	
Polgolla	284,189
Waragoda	541,740
Velona	326,370
	<hr/>
	1,152,299
	<hr/> <hr/>

**SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING**

**INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002**

	Notes	2002 Rs.	2001 Rs.
<u>INCOME</u>			
Grant from the Treasury	3	33,532,000	30,700,000
Other Income	4	<u>190,420</u>	<u>146,179</u>
		<u>33,722,420</u>	<u>30,846,179</u>
<u>EXPENDITURE</u>			
Monthly Stipend & Other Direct Exp.	5	2,509,191	2,644,130
Administration & Establishment Exp.	6	32,231,444	27,941,566
Financial Expenses	7	<u>33,651</u>	<u>1,383,985</u>
		<u>34,774,286</u>	<u>31,969,681</u>
Expenditure Over Income		<u><u>(1,051,866)</u></u>	<u><u>(1,123,502)</u></u>

SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING
BALANCE SHEET AS AT 31ST DECEMBER 2002

	<u>Notes</u>	<u>2002</u> Rs.	<u>2001</u> Rs.
<u>Non Current Assets</u>			
Property, Plant & Equipment	8	25,708,047	24,270,866
<u>Current Assets</u>			
Stocks		273,973	--
Staff Loan	9	727,250	782,644
Advances		4,748,103	4,685,239
Deposits & Prepayments		250,784	250,784
Current Accounts – SLHB		8,003,427	11,145,593
Current Accounts – Projects		2,376,494	1,922,867
Other Debtors	10	160,123	89,729
Petty Cash & Coin Imp rest		38,256	37,665
Cash at Bank		4,514,477	--
		<u>21,092,887</u>	<u>18,914,521</u>
Total Assets		<u><u>46,800,934</u></u>	<u><u>43,185,387</u></u>
<u>Equity & Liabilities</u>			
<u>Capital & Reserves</u>			
Dept. of Small Industries		715,446	715,446
Capital Grant	11	38,784,079	34,067,051
Revaluation Reserves		93,073	93,073
Accumulated Profit / (losses)		<u>(2,761,442)</u>	<u>(1,715,014)</u>
		<u>36,831,156</u>	<u>33,160,556</u>
<u>Non Current Liabilities</u>			
Provision of Gratuity		--	2,517,873
Provision of Pension		<u>422,118</u>	<u>422,118</u>
		<u>422,118</u>	<u>2,939,991</u>
<u>Current Liabilities</u>			
Staff Creditors		84,306	128,684
Other Creditors	12	8,663,863	4,112,461
Accrued Charges	13	468,328	254,416
Cash at Bank C / Training		--	2,589,279
Cash at Bank L / Engineering		9,785	--
Current A/C L / Engineering		<u>321,378</u>	<u>--</u>
		<u>9,547,660</u>	<u>7,084,840</u>
		<u><u>46,800,934</u></u>	<u><u>43,185,387</u></u>

Chair Person
Sri Lanka Handicrafts Board

For Executive Director
Finance

**SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING**

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31.12.2002**

	<u>2002</u> Rs.	<u>2001</u> Rs.
<u>Cash Generated from Operating Activities</u>		
Dificit	(1,051,866)	(1,123,502)
<u>Adjustment for</u>		
Depreciation	1,053,741	1,291,547
Depreciation for previous year	--	(7,510)
Prior year Adjustment items	5,438	186,566
Cash generated before working Capital Activities	7,313	347,101
<u>Charges in Working Capital</u>		
Changes in Current Accounts	3,009,917	(918,585)
Changes in Receivable Accounts	(351,837)	500,549
Changes in Payable Accounts	2,203,063	(1,891,316)
Net Cash Generated from Operating Activities	4,868,456	(1,962,251)
<u>Cash Generated from Investing Activities</u>		
Capital T / G Received	4,717,028	1,686,621
Fixed Assets Purchased	(2,490,922)	(2,017,990)
Changes in Cash & Cash Equilants	7,094,562	(2,293,620)
Cash & Cash Equilants at the beginning	(2,551,614)	(257,994)
Cash & Cash Equilants at the End (Note)	4,542,948	(2,551,614)

Note

Cash & Cash Equilants	<u>2001</u>	<u>2002</u>
Petty Cash & Coin Imprest	37,665	38,256
Cash at Bank - Craft Training	(2,589,279)	4,514,477
- Light Engineering	--	(9,785.00)
	(2,551,614)	4,542,948

**SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING**

Note - 3

TREASURY GRANT RECURRENT

	<u>Rs.</u>
January	2,800,000
February	2,800,000
March	2,800,000
April	2,732,000
May	2,800,000
June	2,800,000
July	2,800,000
August	2,800,000
September	2,800,000
October	2,800,000
November	2,800,000
December	2,800,000
	<hr/>
	33,532,000
	<hr/> <hr/>

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Note - 4

OTHER INCOME

Non Refundable Tender Deposit	76,215
L / Engineering Exam Charges	600
Interest on Staff Loans	105,271
L / Engineering Sales	2,560
Auction Income	5,774
	<hr/>
	190,420
	<hr/> <hr/>

SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING

NOTE – 5

STIPEND & OTHER DIRECT EXPENSES

Raw Materials	28,486
Direct Expenses	10,045
Stipend Allowance	2,470,660
	2,509,191
	2,509,191

NOTE – 6

ADMINISTRATION & ESTABLISHMENT EXPENSES

Casual Wages	235,759
Salaries & Allowances	24,170,987
Overtime	103,905
Incentive	83,974
Warrant & Ticket	31,248
E.P.F. & E.T.F.	1,511,147
Pension Contribution	2,465,564
Special Allowances	235,542
Training Programme	12,653
Staff Welfare	104,905
Traveling – Local	297,815
Staff Training	45,925
Medical Expenses	11,946
License Insurance Vehicle	84,009
Advertisement	22,440
Security Services	26,880
Printing & Stationary	111,422
Post / Tel / Telex	317,000
Fuel & Lubricants	52,669
Tools & Implements	62,429
Head Office Admin. Expenses	600,000
Other Expenses	41,777
Rent Rate & Taxes	57,206
Water Bill	15,786
Electricity	104,902
Repair & Maintenance - Building	30,375
- Machinery	25,903
- Vehicles	313,535
Depreciation – Building	202,108
- Machinery & Equipment	354,583
- Vehicles	202,800
- Office Equipment	87,713
- Furniture & Fittings	129,949
- Tools & Implements	76,588
	32,231,444
	32,231,444

NOTE – 7

FINANCIAL EXPENSES

Bank Charges	25,431
Write off costs	8,220
	33,651
	33,651

SRI LANKA HANDICRAFTS BOARD CRAFTS TRAINING

NOTE – 8

PROPERTY, PLANT & EQUIPMENT COST	BALANCE AS AT 01.01.2002	ADDITIONS	DISPOSALS	BALANCE AS AT 31.12.2002
AT COST				
Land & Building	20,358,496	2,584,417		22,942,913
Machinery & Equipment	4,211,195	142,192		4,353,387
Motor Vehicles	3,669,957			3,669,957
Office Equipment	1,045,826			1,045,826
Furniture & Fittings	2,004,743			2,004,743
Tools & Implements	765,879	206,730		972,609
Total Value of Depreciable Assets	32,056,096	2,933,339		34,989,435
	BALANCE AS AT 01.01.2002	CHARGE FOR THE YEAR	DISPOSALS	BALANCE AS AT 31.12.2002
Land & Building	799,703	202,108		1,001,811
Machinery & Equipment	2,451,145	354,583		2,805,728
Motor Vehicles	3,293,157	202,800		3,495,957
Office Equipment	475,690	87,713		563,403
Furniture & Fittings	1,311,812	129,949		1,441,761
Tools & Implements	395,685	76,588		472,273
	8,727,192	1,053,741		9,780,933
Net Book Value at Cost	23,328,904			25,208,502
Total Carrying Amount of Depreciable Property, Plant & Equipment	23,328,904			25,208,502
	BALANCE AS AT 01.01.2002	INCURRED DURING THE YEAR	TRANSFER RED	BALANCE AS AT 31.12.2002
Capital Work in Progress	941,964	1,813,561	(2,255,980)	499,545
Total Carrying Amount of Property, Plant & Equipment	24,270,868			25,708,047

**SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING**

NOTE – 9

STAFF DEBTORS

	Rs.
Textile Loan	44,200
Festival Loan	88,400
Staff Loan	34,800
Special Advance	3,697
Three Months Loan	556,153
	<u>727,250</u>

NOTE – 10

OTHER DEBTORS

Receivable Temporary Pension	42,000
Belgium Reimbursal	30,176
Refundable Security Deposit	26,047
Refund of Security Deposit NSB	38,078
Comm. Of Inland Revenue	12,940
Rajaye Podu Sevaka Sangamaya	125
Sal Control	6,121
U.N.D.P. Project	4636
	<u>160,123</u>

NOTE – 11

CAPITAL GRANT

March – 2002	1,297,012
September – 2002	800,000
December – 2002	2,620,016
	<u>4,717,028</u>

Head No. 220-7-4-2202

**SRI LANKA HANDICRAFTS BOARD
CRAFTS TRAINING**

NOTE – 12

OTHER CREDITORS

	Rs.
N.S.B. Security Deposit	15,257
Salary Advance	500
Payable to Pension Department	2,839,718
Retention Money	281,342
Stipend Accrued	1,263,430
Refundable Tender Deposit	298,179
Contractor Turnover Tax	100,634
Unpresented Cheques	1,447,839
Advance Supply Creditor	2,407,763
Molagoda Training Center	<u>9,200</u>
	<u><u>8,663,862</u></u>

NOTE – 13

ACCRUED CHARGES

	Rs.
E.P.F. & E.T.F.	176,338
Other Expenses	11,460
Traveling	124,984
Telephone & Postage	68,331
Special Allowances	7,465
Overtime	35,000
Water	10,250
Electricity	<u>34,500</u>
	<u><u>468,328</u></u>

Chairperson

Sri Lanka Handicrafts Board

Report of the Auditor General on the Accounts of the Sri Lanka Handicrafts Board for the year ended 31st December 2002 in terms of Section 14(2)(c) of the Finance Act. 38 of 1971

The audit of accounts of the Sri Lanka Handicrafts Board for the year ended 31st December 2002 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. My 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 will be forwarded in due course.

1:2 Scope of Audit

Audit opinion comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff other resources and time available to me. The audit was carried out in accordance with the Sri Lanka Auditing Standards, methods and practices to obtain a reasonable assurance as to whether the financial statements are free of material misstatements. The audit included the examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether the accounting policies adopted were appropriate. Consistently applied and adequately disclosed. Sub – sections (3) and (4) of Section 13 of the Finance Act. No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

2. Accounts

2:1 Audit Opinion

In view of my observations appearing in this report, I am unable to express an opinion on the accounts presented. Major deficiencies observed in this connection are given below.

<u>Deficiency</u>	<u>Reference to paragraph in this report</u>
(a) Accounting Politics	2:3:1
(b) Inappropriate Disclosures in the accounts	2:3:2
(c) Transactions without Authority, Approval and Certifications	2:3:3
(d) Unrecognized Accounts	2:3:4
(e) Lack of Evidence for Audit	2:3:5
(f) Non – compliance with Laws, Rules, Regulations, etc.	2:3:6
(g) Unreliability of Financial Results and Financial Position	3:1
(h) Weaknesses in system and Controls	4

2:2 Financial Results

2.2.1 Financial Results of the Board

According to the accounts presented, the activities of the Board for the year 31 December 2002 had resulted in a net loss of Rs. 8,806,668 as compared with the corresponding net loss of Rs. 7,089,397 for the proceeding year.

2.2.2 Financial Results of the Craft Training Division

According to the accounts presented , the financial results of the Craft Training Division of the Board for the year ended 31 December 2002 amounted to a deficit of Rs. 1,051,866 as compared with the corresponding deficit of Rs. 1,123,502 for the preceding year.

2.3 Comments of Accounts

2.3.1 Accounting Policies

The Following observations are made

- (a) The procedure adopted by the Board had been to show the combined profit and loss account of the Board and its projects without the appropriate adjustments for the unrealized profit contained in the value of stock balances as at the close of the accounting year, out of goods purchased by the Board from the production projects of the Board at prices inclusive of a profit margin At Fort Laksala alone, the value of stock balances as at 31 December 2002 out of the stocks purchased with a profit margin amounted to Rs, 295,902.
- (b) For instances Where settlement of advances for sundry purchases and for payments to apprentices had been delayed, the procedure adopted by the Board to temporarily obviate the delays in Accounting such advances to a creditor s account.

As at the end of the year under review, advances totaling Rs. 7,098,597 relating to Crafts Training Division and projects had been credited to a creditor s account and brought to account as expenses or assets as stated above Whilst the relevant advance account balances remained fully unsettled.

A total sum of Rs. 16,662,243 inclusive of Treasury grants amounting to Rs. 4, 748,103 obtained by the officers of the of the Board for sundry purchases and services during the previous years and the current year, remained unsettled as at the end of year under review.

- (c) An Accounting procedure for replacement of goods or effecting refunds in respect of sales returns had not been in place. Instead, replacement had been made over sales counters or refunds effected from collections from sales.

As a result, sales returns had not been separately accounted for but had been set off against sales. Such sales returns during the year under review and the previous year at the Fort, Laksala alone amounted to Rs. 144, 373 and Rs. 119,127 respectively.

- (d) Accounts of the Craft Training Division had been eliminated in the preparation of the combined Profit & Loss Account and the Balance Sheet of the Board.

- (e) Depreciation amounting to Rs. 1,700,000 per annum had been made in the accounts in respect of fixed assets acquired for projects from the Department of Small Industries, without having such fixed assets being valued and brought to account. Thus, a credit balance amounting to Rs. 12,304,725 had been shown in the accounts as at 31st December 2002 representing the value of such fixed assets.

- (f) A provision amounting to Rs. 55,045,775 inclusive of allocation amounting to Rs. 12,298,806 made by the Craft Training Division from Treasury grants, had been made in the accounts in respect of depreciation and payment of gratuities. However this sum had not been suitably invested to defray liabilities as they arise.

- (g) Corresponding values relating to the year 2001 had not been shown against each item of account so as to facilitate comparison of values relating to the year under review with those for the previous year.

2:3:2 Inappropriate Disclosures in the Accounts

- (a) Stocks valued at Rs. 766,147 removed from the Fort Laksala during the year 1998 under temporary issue orders had not been ordered and had not been returned and had continued to be shown under the closing stock without making any adjustments.
- (b) During the year under review, stocks amounting to Rs. 101,606 needing repairs as at 31 December 2001 had been repaired and damaged stocks amounting to Rs. 709,678 had been sold for Rs. 758,144. The relevant aggregate value amounting to Rs. 892,284 had been shown in the accounts for the year 2002 under debtors, Prepayments and deposits. Stocks valued at Rs. 941,942 as at 31 December 2002 identified at the physical verification as damaged and needing repairs had similarly been shown under debtors, prepayments and deposits.
- (c) Abatements made in the payment of gratuities, individual salaries and casual wages had not been brought to account instead, only the net payments had been accounted for.
- (d) A bank guarantee amounting to Rs. 95,000 furnished by the Belgium National during the year 1995 had been shown in the final accounts as two debit balances as at 31 December 2002 as a fixed deposit of Rs. 176,879 and as an export credit guarantee deposit amounting to Rs. 95,000. Interest amounting to Rs. 81,897 earned on the deposit had been brought to account as an income of the Board.
- (e) Accrued expense aggregating Rs. 35,667 relating to 4 items of accounts had been omitted in the accounts.
- (f) Book balances amounting to Rs. 153,926,798 relating to fixed assets had been shown in the accounts without physical verifications.
- (g) Understatements and overstatements in six items of accounts aggregated Rs. 951,026.

- (h) A sum Rs. 156,308 relating to four items of account of the Board and a sum of Rs. 152,375 relating to five items of account of then Crafts Training Division had been inappropriately disclosed under various accounts.
- (i) Assets and liabilities of the Keselwatte Light Engineering Division had nor been brought to account in previous years. During the year under review, only stocks valued at Rs. 273,973 and the bank overdraft amounting to Rs. 9,785 relating to that Division had been brought to account by debiting / Crediting current accounts and shown in the Balance sheet of the Craft Training Division without being properly accounted for.
- (j) Out of sum of Rs. 443,590 insured on repairs to two motor vehicles met with accident during the year under review, a sum of Rs. 319,996 had been charged against the vehicle repairs and Maintenance Account whilst the balance sum of Rs. 123,594 had been charged against the license Fees Account without being properly accounted for. A sum of Rs. 95,017 received during the year under review being the insurance claim in respects of one vehicle had been credited to the interest ion Investment Account whilst the insurance claim amounting to Rs. 173,888 receivable in respect of the other vehicle had not been brought to account.

2:3:3 Transactions without Authority, Approval and Certifications

The following instances were observed at audit test checks during the year under review.

- (a) Payments had been made without certifications and approvals
- (b) Certain cheques had been signed only by the two Accountant ants
- (c) Certain journal entries had been made by the Accountant at his discretions without prier approval.
- (d) Approving and signing of cheques in respect of certain payments had bee done by the Chief Internal Auditor.
- (e) Payments had been certify by initialing.

2:3:4 Unreconciled Accounts

Balances in 33 accounts had not been reconciled with the corresponding balances in the subsidiary records. The unreconciled differences aggregated Rs. 27,296,280

2:3:5 Lack of evident for Audit

(a) 18 items of accounts totaling Rs. 236,363,132 relating to the Head Office, 17 items of accounts totaling Rs. 53,612,431 relating to the Craft Training Division and 09 items of accounts totaling Rs. 23,609,980 relating to projects could not be satisfactorily vouched or accepted in audit due to the absence of documentary evidence needed for audit

(b) Payment vouches, Cash book, journal, Journal Vouches, Bank Statements, Bank Reconciliation Statements, Receipt Vouchers, Salaries Journal, Advance Registers, Miscellaneous Schedules, Main Ledger, Trial Balance and stock verification reports in respect of the Head Office and projects were made available to audit long after the rendition of Accounts. As such the items of accounts relating to such subsidiary records and schedules could not be satisfactory vouched or accepted in audit.

2:3:6 Non Compliance with Laws, Rules, Regulations, etc

The following instances of non-complacence were observed in adult.

Reference to Laws, Rules Regulations	Non-compliance
Finance Act No.38 1971 Section 8 (1), 11 13 (5) And 14 (3) With	(I) Requirements of sections relating to the Budget Investments on Debtors and Creditors Internal Audit and Draft Annual Report had not been complied

- (ii) Replies/adequate replies to 175 audit queries/requests for information issued during the year under review and the previous year had not been furnished.
- (b) Public Enterprises Circulars. No 95 of 14 June 1994, No.114 of 03 December 1996 and No. 118(a) of 23 May 1997. public Administration Circular No. 07/97 of 03 February 1997 and public Finance Circular No. PF/PF/3of 19 November 1999.
- Circular instructions relating to retrenchment of excess staff additional allowances and holiday pay, functions of Audit and Management Committee had not been complied with
- (c) Establishments Code section 3 of Chapter 11 And Section 10.1(a) of Chapter viii.
- Requirements relating to recruitment of staff and holiday pay had been complied with.
- (d) Financial Regulations Nos. 109,395(c) , 396,1645 and 1646.
- Requirements of Regulations relating to losses Bank Reconciliation Statements lapsed cheques and vehicle utilization had not been complied with.
- (e) Sri Lanka Accounting Standards 05,08,10 and 12
- (i) Specifications relating to valuation of stocks had not been complied with
- (ii) Basis of providing for depreciation had not been disclosed
- (iii) Provisions relating to changes in accounting Policies had not been complied with
- (iv) Contingent liabilities had not been disclosed as specified.

3. Finance and Operating Review

3.1 Financial Results

Operations of the Board for the year ended 31 December 2002 had resulted in a net loss of Rs.8,806,668 as compared with the corresponding net loss of Rs.7,089,397 for the preceding year thus showing a deterioration in the financial result by Rs. 1.717,271. This deterioration can be analyzed as shown below.

	Favorable Rs. (Million)	Variance Adverse Rs. (Million)	Rs. (Million)
Turn over			
Local	5.522	-	
Export	-	3.589	
	<u>5.522</u>	<u>3.589</u>	1.933
<u>Cost of Sales & Turn over Tax</u>			
Turn over Tax	-	0.035	
Cost of Sales	<u>1.103</u>	<u>-</u>	<u>1.068</u>
			3.001
Gross Loss			
Less:			
Operational Expenses	-	7.470	
Administration Export	-	3.594	
Marketing & Distribution	0.336	-	
Finance	<u>7.996</u>	<u>-</u>	<u>(3.092)</u>
			0.091
Operating Loss			
Add			
Interest on Investment	0.522	-	
Other Income	-	0.625	
Profit on sale of Fixed Assets	<u>-</u>	<u>1.523</u>	<u>(1.626)</u>
Net deterioration in the financial results			<u>(1.717)</u>

Observations

- (a) Export expenses and the expenses of the Export Division for the year under review amounted to Rs. 2171150 excluding the cost of goods exported whilst the value of export sales amounted to Rs 2231330. Activities of the export Division for the year would disclose a very high loss when the cost of export sales is also taken into consideration.
- (b) Adjustment of the financial results disclosed in the financial statements rendered to audit in respect of each year for accounting errors omissions etc. observed in the subsequent years had been a regular feature of the Board. For instance the financial result of the previous year had been adjusted by a net sum of Rs.4787568 during the year under review. Such adjustments made in the previous five years are given below.

<u>Year</u>	<u>Financial Results for the year (Profit / Loss)</u>	<u>Adjustments made in the subsequent</u>
1997	7,440,456	556,700
1998	(10,106,641)	126,001
1999	(5,576,101)	6,254,253
2000	(14,708,159)	(4,922,633)
2001	(7,089,397)	(4,787,568)

In this context the possibility of similar adjustments to the financial results for the year under review in the ensuing years cannot be ruled out. In view of this unsatisfactory position and the various omissions errors etc. referred to in this report no reliance can be placed on the financial results and the financial position disclosed in the accounts.

3.2 Performance

(a) Services & Supplies

There was no evidence that the Board had supplied machineries and raw materials to the craftsmen for the production of Handicrafts. In terms of the provisions made in section 44 of the National Crafts Council and allied institutions act , No. 35 of 1982. There was also no evidence that medium and short term loan facilities had been made available to the craftsmen.

(b) Crafts training production & Sales

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
No. of Training centre as at end of the year	178	178	183	185
No. of Craftsmen Trained	1386	2377	2685	2283
No. of Training centres opened during the year	02	Not furnished		
No. of Training centres closed during year	02	05	02	14
Value of produce of trainees (Rs. Million)	13.4	12.1	13.4	12.3
Sales of Produce (Rs. Million)	12.6	11.6	13	13

Observations

Although the main objective is to trained apprentices, the training of apprentices during the year under review had declined by approximately 42% when compared with the previous year.

3.3 Budgetary Control

It was observed that the budget had not been made use of as and effective instruments of managements control as there were considerable variations between the budgeted and actual income and expenditure. For instant, the Board had incurred a net loss of Rs. 8.8 million, although it has expected a net profit of Rs. 0.92 million for the year under review.

4 Systems and Controls

Special Attention is needed in respect of the following areas of control

- (a) Branch current accounts
- (b) Preparation, Approval and certification of payment vouchers
- (c) Payment and settlement of advances
- (d) Sales / Sales returns / Credit sales / Export Sales
- (e) Purchase of goods and making payments
- (f) Reconciliation of control accounts
- (g) Internal Audit and internal Control
- (h) Compliance with relevant legal provisions
- (i) Budgetary control

(S.C. Mayadunne)
Auditor General

Report of the Auditor General on the accounts of the Sri Lanka Handicrafts Board for the year ended 31st December 2002 interms of section 14(2) (C)of the finance at No. 38 of 1971

My commence previous expressed in the above report are given below

2.2 FINANCIAL RESULT

2.2.1 Financial results of the Board

Although the gross profit gone up by 8% as compared with that of the previous year Fixed overheads have gone up reason of the surplus cadre.

In view of the payment of the monthly allowance of Rs. 2200 paid during the year 2002 interms of the Public administration Circular No. 24/2001, an increase has taken place in the staff expenditure. As 1/3 of the present cadre is in ecess, it has been proposed to effect voluntary retainers with compensations. This would enable to maintained overheads at optimum level.

2.2.2. Financial Results of the craft training division

Treasury grant for fixed overheads wad not sufficient and therefore a deficiency had occurred. 95% of the overheads was spent on staff emoluments an related expenses. Action has been taken to minimize the expenditure by means of eliminating the employee is excess under the proposed scheme of voluntary retirements with compensation.

2.3Commence on Accounts

2.3.1 Accounting Policies

(b) It order to award delay in bringing in to accounts the advances paid for miscellaneous purchases and allowance of apprentices as expenditure or assets that have been accounted and expenditure or assets whenever there is delay in producing receipts and documents for settlement of Payment Although the purposes which they have been obtained have been, complied advances are shown as outstanding until all the document are submitted.

Although it is stated that a some Rs. Million obtained by officers of Board as advances have not been settle almost 60 % of the amount have been settled during he first quarters of the year 2003, by submitting the documents

(c) When articles sold are brought back by customers due to some defects or damage within a reasonable period of time, a similar item is given in place of the damaged or the defective one on the instructions of the Head of the Marketing Division.

Only when similar article cannot be given in place of the damaged or the defective article returned, the Chief Cashier will refund the money promptly on the advise of the Head of the Division. Such instructions for refunding the money promptly are given as customers who come to the Board should not be put into

inconvenience. When compare with the previous year, instances of refunding money are negligible. Refunds were adjusted in calculating the revenue. Action has been taken to issue a new circular on this subject. Compared with the annual sales, such refunds are less than 0.1%

- (d) Considering sales as income of the Sri Lanka Handicrafts Board, the profit and loss account is prepaid in order to work out the profit. A Treasury grant has been made available to the Board in order to reimburse the expenses of the Crafts Training Division. As these two organizations function in two different fields, a joint account cannot be prepared and therefore a separate income and Expenditure account has been prepared for crafts training division. This practice has been continued on the instructions of the treasury and the former audit offices,

A separate balance sheet and a statement of income and expenditure has been prepared showing adequate information on assets and liability of the craft training division with final accounts of the Board.

- (e) Assets transferred to the Board from the department of Small Industries have not been valued properly before they were transferred.

Steps have been taken to appoint an evaluation Board to value the assets in order to decide as to how they should be brought in to account. As these projects are involved in manufacturing and marketing activities, a sum of Rs. 1.7 million estimated for the purpose of calculating their profit or loss more actually has been accounted as this depreciation annually in calculated such profit or loss. Depreciated values so far affected annually in respect of assets not valued will be moved from the allocation of depreciation account and transferred to the reserve account for remarking assets in the year 2003.

- (f) Provision for depreciation and gratuities are allocated annually according to the accounting requirements. Financial strength of the Board does not allow to invest such allocation on the outside ventures. However the fixed deposits of the Board have been maintained as Rs. 7 million as on 31.12.2002 similarly as on that date there is a sum of Rs. 2.7 million which has not been reimbursed and when taking overheard of the head office consideration there is a deficit of Rs. 6.3 million in recurrent grant

- (f) When comparison of the year under review with the previous year is deemed necessary, it has been shown in the final accounts

2.3.2 Inappropriate Disclosures

- (a) Final stock of the Board has not been calculated and brought in to accounts by an Annual Board of Survey. In examining the stocks removed by temporary issue orders, it has been revealed that they have been taken away for repairs and for exhibition purposes. Only a portion of the stocks thus removed has been returned and the portion not handed back is under investigation.

- (b) Stocks found damaged as on 31.12.2002 have been removed from the total stock and the damaged stock has been shown under current assets, as indicated in the audit report creditors have not been shown as prior payments and deposits. Items that could not be repaired have been sold by means of special sales counters.
- (c) The value of damaged items that could be repaired has been stated to be Rs.941,942 in the physical verification of 31.12.2002. This stock had been removed from the marketable stock and was shown as current assets.
- (d) An amount received by the Board in 1995 on behalf of a bank guaranty of Rs. 95,000 furnished to the Department of Sri Lanka Customs for the purpose of reimbursing the customs charges for importing raw materials required for the Belgium Lace Manufacturing project has been invested and thereby this fixed deposit has been created. The error caused by indicating this amount as 2 debits balances has been rectified in the year 2003.
- (e) Fixed assets value of the Crafts Training Division of the Board as on 31.12.2002 was Rs.153.9 million of which Rs.124 million relates to lands and buildings. The Crafts Training division and the Marketing Division of the Board are now using them. Motor vehicles amount to Rs. 10.4 million and they are being surveyed. Inventory articles, furniture and machinery were valued at Rs.19.5 million. A Board of Survey has started to survey and value these articles in 2003.
- (e) In accounting the expenses this shortcoming has taken place owing to a change in the code number. However this has not affected the entire expenditure of the Board. Action has been taken in 2003 to re-examine the code numbers.
- (g) All transactions of this project have been accounted under the Annual Accounts of the Crafts Training Division from the year 2002.

2.3.3 Transactions done without authority approval and certification.

- (a) No payment is made in the absence of certification or approval. Payments in excess of Rs. 5,000 are approved by the Tender Board. Payments below that amount are approved by head of the Division and referred to the accounts division for payment. In case of payments to suppliers a tender procedure is not followed and the Director in charge of the supplies Division approves such payments.
- (b) Accountants are authorized to sign the cheques. The letter of the chairman of the Board dated 01.11.2001 has intimated this, with copy to the Government Audit branch. However arrangements have been made for accountant to sign as the first signatory and a Head of Division to sign as the second signatory. Yet the post of Executive Director (Finance) is still vacant and in the absence of other officers and in urgent cases two accountants have signed the cheques.
- (c) Journal entries required by accounting procedures are approved by the Executive Director-Finance or by the Accountant Approval of the Directorate is obtained for write offs and waivers as required.

- (d) Expenditure of each division is approved by the Officer in Charge of that division Direct expenses of the internal Audit Division are to be approved by the Chief internal Audit.

Executive Director-Administration of the Board who functioned in that capacity up to October 2002 has functioned as Chief internal Auditor in November. Payments related to the above mentioned period have been properly approved but only in two instances after examining all aspects and in the absence of any other officer to sign the cheques as second signatory, he has signed as second signatory in view of the urgency.

- (e) In certifying payments, the Accountant Places his full signature but he has placed his initials only in several instances due to an oversight.

2.3.4 UN RECONCILED ACCOUNT

Although a sum of Rs. 27.2 million has been shown as un reconciled variation of which Rs. 10.6 million has been reported as variations of sales and stocks. Schedules relating to sales and stocks account show the values prepared by reconciling those accounts. In calculating the sales, actual sales value has been calculated after making necessary adjustments. After a physical survey of the closing stock, the correct value of the accounts has been mentioned.

In order to calculate the un – reconciled variation of the audit report, the Audit Division has obtained the gross sales value direct from the sales branches, Such value relates to the gross value obtained before credit sales and deposits are reconciled.

Stock value is the value obtained by the Audit Division before making adjustments such as repairs, damages, losses and removals.

The remaining variation of Rs. 16.2 million relates to the current accounts of branches, head office and the Craft Training Division. As they could not be reconciled as on 31.12.2002, they ere reconciled for the first quarter of 2003.

2.3.5 Non – Availability of evidence for the audit

particulars regarding the sum of Rs. 236,363,132 being the total of 18 accounting items relating to the Head Office for which written evidence has not been submitted are given below;

1 .Investment – Rs. 7,203,005.00

These monetary certificates could not be submitted as they have been kept at the Peoples Bank as a certified guarantee for the over draft but confirmations of balances, files containing tax deductions certificates have been submitted to the Government Audit on their request.

2 .Lands & Buildings – Rs. 99,249,548.00

Copies of the gazette notification by which these assets have been transferred to the Board has been made available to the government audit.

3. Machinery & Equipment – Rs. 5,560,892

Office equipment have been given under this heading. These items have been entered in the inventory. All particulars of equipment purchased annually have also been furnished.

Cost of certain equipment coming down from the inception of the Board and The cost of some equipment transferred from the Dept. of Small Industries are not available, action has been taken to appoint the Committee in order to systemize the inventory.

4. Motor Vehicles – Rs. 6,660,347

The board has 17 vehicles. Register of Motor Cars is maintained. Separate files are maintained for these cars. These have been made available to the Government Audit Division from time to time.

5. Inventory Articles – Rs. 3,094,318/=

A Register of Inventory Articles is being maintained by every division. Although there is no values for the items transferred from the Dept. of Small Industries, a committee has been appointed to identify the items and assess them.

6. Furniture & fittings – Rs. 2,135,615/=

A Register is maintained by every division in respect of furniture & fittings. Although there is no value for the items transferred from the Dept. of Small Industries, a Committee has been appointed to identified and assess them.

7. Other Debtors & Deposits – Rs. 32,644,502

Of this amount for a balance Rs. 10,434,573/= evidence has been submitted. (They are advance payments, fixed deposits interest receivable and rent receivable). Other balances related to those coming down from the inception of the Board and to the items transferred from the Dept. of Small Industries. Data in respect of these cannot be found.

8. Prepayments – Rs. 361,111/=

These balance relates to the expenses incurred for the ensuing year. Relevant particulars for making these payments are given in the vouchers and they have been made available to the Government Audit Division after submitting the final accounts, a schedule too has been furnished.

9. Trade Debtors – Rs. 3,748,107/=

The Schedule and the files are already maintained in respect of debtors and they have been made available to the audit division. All debtors are public sector organization. A debtors ledger will be maintained from the year 2003 and reconciliation will be made.

10. Staff Debtors – Rs. 1,337,146/=

Employee Debtors have been computerized and print outs with full particulars have been furnished on 7th March 2003. But even reports for the previous year stated that the register of employee debtors has not been produced. However computerized debtors register had been made available every year.

11. Cash in Hand & Bank Balance – Rs. 296,750/= - Rs. 987,404/=

Advised to the relevant Bank with a copy to Audit letters of confirmation in respect of balance have been sent direct to the government audit division.

This sum of Rs. 987,404/= has been spread over the Sales outlets through out the island and 21 centres including petty cash keepers. It is not practically possible to carry out physical verification in all these places as on 31st December 2002. But a certificates regarding the balance available on that day was presented to government audit division.

12. Bank Overdraft – Rs. 16,946,945/=

All bank branches have been written to requesting to send the confirmation letters on balances direct to the government audit division. Copies of these letters were sent to the Government audit division as well.

13. Creditors on accrued Expenses – Rs, 44,412,627/=

Accrued expenses and schedules for Rs. 16 million relating to creditors were made available to the government audit division on 10th March 2003. The remaining balances are those coming down from the inception of this board and related to balance transferred from the Dept. of Small Industries.

14. Allocation of Income Tax – Rs. 3,147,975/=

Full particulars of these allocation have been reveled to the government audit division through the respective statement of accounts. Their allocations were made 5 years ago, but could not be settled due to financial difficulties. Action is being taken to write off them.

15. Allocation of Pension – Rs. 618,051/=

File relating to this allocation and the list of balance have been made available to the government audit division.

16. Other Income – Rs. 2,410,297/=

This balance is made up of tender deposits. House rent receipts etc. Every transaction relating to this has been supported by a duly prepared vouchers

and has been entered in the Cash book giving the relevant receipt Nos and code Nos.

17. Security Service Charges – Rs. 937,830/=

Written agreements have been entered into with regard to the supply of Security Services.

18. Previous Years Adjustment Account – Rs. 4,764,949/=

Previous Years Adjustment have been entered in the ledger through journal entries giving the account code No. in respect of each adjustment.

The journal maintained for the purpose has been made available to government audit division.

19. Journal Entries

The Journal for year 2002 and the journal entries have been made available to the government audit division.

Crafts Training division

1. Staff Loans – Rs. 727.250/=

All computer print outs have been made available to the government audit division.

2. Deposits & Prepayments – Rs. 250,784/=

Most of these are old balances and hence particulars cannot be found. However, action has been taken to furnish schedules and age analysis of these balances.

3. Staff Creditors – Rs. 84,306/=

Submitted with salary journal entries of December.

4. Other Debtors – Rs. 160,123/=

Most of these balances are old ones and hence the particulars cannot be traced. Action has been taken to furnish schedule of an aged analysis of these balances.

5. Other Creditors – Rs. 8,663,863/=

Schedules for these have not been prepared. Therefore, files relating to Rs. 8.2 million. Registers of Advance and Bank Reconciliation have been furnished.

6. Accrued Expenses – Rs. 468,328/=

These have been paid within the first three months.

7. Land & Buildings, Machines & Equipment, Furniture & Fittings and Tools & Equipment – Rs. 84,989,435/=

Action has been taken to prepare registers of assets. These balances have come under the board as a result of transfers made from the Dept. of Small Industries. Therefore original value cannot be traced, but all particulars of collection made in each year have been furnished to the government audit division.

8. Journal Entries

All the journal entries, salary journal entries. All these entries have been furnished to the government audit division.

9. Previous Year Adjustment Account – Rs. 5,438/=

Detail Ledger entries have been made available under the code no. 40500. It includes detail entries.

10. Capital Grants – Rs. 4,717,028/=

All files and vouchers have been made available to the government audit division.

11. Addition to Fixed Assets – Rs. 2,933,339/=

All relevant schedules and files have been made available.

12. Other income – Rs. 190,420

Particulars too confirm this balance have been furnished through journal entry under the code numbers 803 & 804 of this amount a sum Rs. 105,271 relates to interest as employees loans and this has been furnished with the register of Employees Loans.

13. Allocation of Pension – Rs. 422,118

Relevant files have been furnished for calculating these amounts

14. Capital Constructions

Relevant files have been made available to the Government Audit Division.

PROJECT ACCOUNTS

1. Staff Loans – Rs. 24,977

Computer printouts have been made available.

2. Creditors and Accrued Expenses – Rs. 8,694,702

Of this, a sum of Rs. 3.3 million are in current Accounts. Adjustment for same have already been made. Settlement work in respect of Rs. 4.7 millions being done. Relevant schedules have been made available for Rs. 600,000 of accrued expenses. Remaining Rs. 40,000 is an old balance, particulars of which cannot be traced.

3. Fixed Assets – Rs. 1,400,604

Preparation of fixed assets register is in progress. Purchases and particulars of constructions in each year have been made available through the Statement of Account.

4. Pensions – Rs. 355,153

Files relating to the calculation of this balance have been made available to the Government Audit Division.

5. Advances to Suppliers – Rs. 101,200

Action has already been taken to settle this advance

6. Provisional Pension Receivable – Rs. 101,200

Payments have been made by vouchers. These have been settled in the year 2003.

7. Central Bank 8% Contribution – Rs. 6,229

Paid in January. Detailed schedules relating to this have been furnished with pay sheets for December.

8. Cash in Hand - Rs. 110,162

Actions will be taken in the future to obtain confirmation of balances 2.3.5b.

Although it is mentioned that documents and reports relating to the head office and projects have been furnished to the Audit very late, final accounts have been furnished to the Auditor General on Friday 28th February 2003 and thereafter relevant documents and returns have been furnished on the dates mentioned below;

All vouchers (Head Office & Branches)
Cash book,
Salary Journal of Bank Branches
Head Office Bank Report

On , March 05, 2003

All vouchers of the Crafts Training Division Cash books, Salary journals, Bank reports and Bank reconciliation Journals, Capital Register.	On, January 22/23, 2003
Journal Vouchers	On, January 27, 2003 & February 18, 2003
Craft Training Ledger	On, February 03, 2003
Head Office Trial Balance Ledger Head Office Journal, Vouchers, Journal Advance Books, Branch Cash Books, Salaries, Additions to fixed assets, advances, On, March 07, 2003 Accrued expenses, Employees Loans, Register Schedule of Gratuities, head Office Cash Book, Fixed Deposit Interest	On, March 06,2003
Schedule of Creditors	On, March 10,2003
Branch Bank Reconciliation, and Head Office Bank Reconciliation	On, March 10, 2003
Schedule Debtors	On, March 10, 2003
Schedule of Credit slips receivable	On, March 13, 2003

Projects

Register of vouchers and advances of all projects	On, March 05, 2003
Bank Reconciliation Ledger, Cash Book, Register of Employees Loans	On, March 07, 2003 On, March 10, 2003
Advances Journal Vouchers (Waragoda / Polgolla)	On, March 11, 2003

2.3.6 (a)

(ii) 10 audit queries have been submitted for the year under review 08 of them have been replied. Some of the remaining queries are outstanding since 1994. Although some of them have been replied even copies of such replies cannot be traced because they have been sent some years ago. However enquiries were made as to the alleged inadequacy of replies. But it has not been possible to find as to what further particulars are required.

4 Systems and Control

a) **Branch Current Account -**

Instructions have been issued to reconcile this with other current accounts and to made adjustments.

b) Preparation of Vouchers, approving and certifying them –

Officers concerned have been advised to prepare the payment vouchers properly

c) Payments and settlement of advances –

Prompt action has been taken to settle every advance and to made necessary recoveries.

d) Sales / Sold items returned credit sales –

Circulars and instructions pertaining to these matters have been issued.

e) Purchase of Article and Payment of Money –

Payment procedure have been systematized for payment on purchases made on basis of the period during which the loan can be paid.

f) Internal Audit and Internal Administration –

A Chief Internal Auditor has been engaged from October 2002 for regularizing this field more effectively

g) Relevant Legal Provisions –

Officers concerned have been advised to comply with the relevant legal provisions.

h) Budget Control –

Main difficulty is budgetary control is due to the non – achievement of anticipated sales targets and in excess in the fixed overheads.

Srimani Wickramasinghe
Chairperson
Sri Lanka Handicrafts Board.