

Sri Lanka Cement Corporation - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Cement Corporation “Corporation” for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 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 Corporation as at 31 December 2022, 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation'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 Corporation 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation 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 Standard

Non- Compliance with the reference to particular Standard	Management Comments	Recommendation
In accordance with the section 51 of Sri Lanka Accounting Standard 16, the total value of Rs.4,632,514 for 03 vehicles, which are in running condition and currently in use by the corporation, had been stated in the accounts at historical cost and the estimated error about the life time of the asset had not been revised according to Sri Lanka Accounting Standard 8 and the correct carrying value was not shown in the financial statements.	That the action will be taken to start the vehicle valuation activities.	Action should be taken to the revised of the estimated error about the life time of the assets according to the Sri Lanka Accounting Standard and the correct carrying value should be shown in the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comments	Recommendation
(a) Although the unidentifiable debtor balance of Rs.25,925,739 in previous years was recognized as the long-term receivables in the year under review, but the required provisions was not made for doubtful debtor balance.	The approval of the Board of Directors has not been received to write off the balance of Rs.25.9 million, which was not separately recognized under the debtor balance. And also since the balance can not be separately recognized, it has	Adequate provision should be made for unrecoverable balances.

- been deducted from the short term debtor balance and added to the long term receivable account.
- (b) 6340 acres related to 03 lands owned by the corporation have been included in the fixed asset register, but no action had been made to assessed and included in the financial statements. Since several years only a disclosure was made in this regard as a note in the financial statements and but no necessary action was taking to the valuation of these assets.
- The valuation process of the land with Aruwakkalu limestone deposit has been hampered due to the insufficient financial situation and the valuation activities of the land in galle has been startered. Also, the valuation activities in the land class will be startered in the future.
- The fair value of the assets should be discoursed in the financial statements.
- (c) The limestone stock of 25,750 cubic meters was disclosed in the financial statements, but the value had not been calculated.
- Currently, this limestone stock has not been physically measured and that the value will be assessed and accounted for in the future.
- The action should be taken to the calculated the value of the limestone stock and shown in the financial statements.
- (d) The corporation had invested Rs.1,083,618,910 for purchase shares worth of Rs.10 each in Lanka Cement Company on the year 1981. The market value of those investment should be assessed and stated in the financial statements, but the corporation did not do so and as the market value of the investment was Rs.5.70 per share in the year 2016, value of the investment wroth of Rs.617, 662,779 was stated in the financial statements.
- Lanka Cement Company is being proceed for liquidation and Lanka Cement Company has not provided accounts to the corporation after the year 2016. Therefore, the corporation has not been able to prepare the consolidated financial statements.
- The market value of the investment should be assessed and disclosed in the financial statements.
- (e) Although the total value accounted for 03 types of assets included in the property, plant and equipment of the corporation is
- The reason for the difference is the value of assets for which information cannot be found.
- Action should be made to correct the asset register.

Rs.10,973,080, according to the fixed asset register the total value of those assets is Rs.6,719,780, therefore there was a difference of Rs.4, 253,300.

(f)	Even if the liabilities are to be settled in less than one year, should be shown in the Statement of Financial Position as the current liabilities. Out of the balance of Rs.42,074,764 stated under trade and other payables in the financial statements of the corporation, Rs.25,250,966 of the payable balances that have being going on for more than 03 years were stated under current liabilities. The balance confirmations were not obtaining regarding the balance of Rs.14,374,689 to be paid to the Inland Revenue Department for taxes.	No comments.	Action should be made to identify and settle the creditor balances.
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1.6 Accounts Receivable

Audit Observation	Management Comments	Recommendation
At the end of the year under review, out of the balance of Rs.181,876,862 for trade and other receivables, Rs.27,699,106 were outstanding balances for more than 03 years.	That the future actions will be taken, after the discussed in a board meeting about the future actions to be taken in this regard.	Arrangement should be made to settle the debtor balances.

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

Reference to Non-compliance Laws, Rules, Regulations etc.	Management Comments	Recommendation	
Financial Regulations 756	An annual survey had not been carried out regarding the closing stock of Rs. 238,255 and the property, plant and equipment of Rs.808, 769,061.	Regarding the closing stock, a physical verification will be made in the future and the stock verification report for the year 2022 is being prepared and will be submitted to the audit after receiving the approval of the Board of Directors.	Financial Regulations must be followed.

2. Financial Review

2.1 Financial Result

The operating results of the year under review amounted to a profit of Rs.60,802,048 and the corresponding profit in the preceding year amounted to Rs.44,642,491. Therefore, an improvement amounting to Rs.16,159,557 of the financial results was observed. Although the financial expenses increased by Rs.6,628,629, interest income on short -term deposit investment increased by Rs.19,608,587 was main reason of that improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comments	Recommendation
(a) The two oil tanks and pipe systems in Kankasanthura belonging to the corporation had been given to the Ceylon Petroleum Storage Terminal State Company without entering in to a written agreement. For that based on the assessment report dated 22 December 2015 of the valuation department, it was assessed that an amount of Rs.201,360,000 should be received to the corporation from the year of 2010 to the year	Although the corporation should receive the rental due in respect of these oil tanks, the payment of the rental has been neglected due to the reason of that the land ownership had not been settled.	Action should be taken to recover these arrears.

under reviewed, but the due amount was not received till the end of the year under reviewed.

- (b) The Galle Unawatuna Kesbepana land worth of Rs.1,200,000 had been acquired by the Habaraduwa divisional secretary for the construction of sixty houses damaged by the T-tsunami and the corporation had not been able to get any compensation related to it until now.
- The chairman who was appointed in November 2022, he has signed and handed over the proxy letters for get the relevant compensation. And also, should take necessary action for confirm the ownership of the land to get the compensation, and also that the necessary actions are being carried out the valuation for the land.
- The action should be taken to obtain the compensation due for the corporation without delay.
- (c) Agreement No.495 signed on 23 August 1996 between the corporation and Puttalam Cement Company Limited, which the current Siam City Cement Company Limited, agreed to lease the Aruvakkalu limestone land for 50 years on the basis of annual fixed rent and was signed on 07 November 2019 an additional lease agreement No.268 had increased the lease rent income to US \$ 319,118 from the year 2019 based on the twelve percent lease rent increase every 5 years. However, the corporation has not been able to get a decision regarding the recovery of the annual rent lost from the first agreement from 1993 to 2018. Furthermore, the Attorney General's approval for the additional lease agreement has not been obtained.
- After the line Ministry was informed about this, a complaint has been made to the Criminal Investigation Department on 25 June 2020, about this financial irregularity. And also, will be looking in to the future actions regarding to that.
- The Attorney General and the Line Ministry should have been consulted before signing the agreements, and the agreements should have been signed after the obtaining approval.

(d) The railway engine worth of Rs.750, 000 had been stated in financial statements as an asset held for sale since several years, but no action had been taken in respect of that asset which was idle even at the end of the year under review.	Because of the purpose of selling the railway engine has not been changed by the corporation so far, that the asset is accounted under asset for sale as per the section 9 of Sri Lanka Accounting Standard 5.	Necessary action should be taken on idle asset.
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3.2 Operational Inefficiencies

Audit Issue	Management Comments	Recommendation
(a) Established by the Industrial corporation Act No. 49 of 1957, the vision of the Sri Lanka Cement Corporation is to provide guidance and leadership for the development of the cement industry in Sri Lanka and its mission is to ensure adequate supply of quality cement and other cement related products to meet the needs of the country. But at present the corporation does not manufacture cement or any cement related products. And also, income of Rs.64,062,938 received from the Aruvakkalu limestone deposit owned by the corporation and Rs.4,753,438 from the leased of the land in kollupitiya for a car park, had been only the main income source in the year 2022.	The audit observation was accepted.	The action should be done in such a way that the basic objectives of the establishment of the corporation are full filled as well as in such a way as to get maximum benefits from the natural resources owned by the corporation.

- (b) Corporation had been planned to start a joint project with Ceylon Mineral Sand Company for the top soil layer and excavation of the land with high value heavy mineral material Aruvakkalu limestone deposit in the period of 2021 to 2025. Although obtaining the necessary approvals for that project and the action had not been taken to reach the agreements with relevant parties.
- Jointly carry out of this project has been rejected by the Lanka Mineral Sand Company and Iluka international institution has requested permission for this project, but they have not agreed to pay any payments to corporation to regard this, so carry out this project with them has been rejected by corporation. And also, according to the instruction of the state minister, this project has been given to an Asha Mineral Institute in the year 2023 and action will be taken to establish a laboratory and the testing laboratory with new technological facilities on this land.
- Action should be made to get maximum benefits from the natural resources owned by the corporation.
- (c) The unusable materials in the Kankasanthure cement factory had been removed and the factory premises had been cleaned as per the cabinet paper No: අම/21/0175/320/004 and dated 16 February 2021. Simultaneously, prepare a report on the condition of the buildings located in the factory premises, prepare a report by calculating the amount of iron in the premises, remove the bushes that have grown in the premises and pile up scattered iron, and remove the large machinery and remove the debris buildings
- After handed over the relevant reports to the line ministry on 14 February 2022, The State Finance Department has appointed tender board and the technical evaluation committee to carry out work in this regard in August 2022. And the cleaning of the factory premises will be done by the Ministry of Industries.
- The property owned by the corporation should be used for the effective investment.

from the factory premises were include in the action plan of 2022. But none of those activities had been completed during the year under review.

- (d) The Kollupitiya land of 89.07 perches owned by the Sri Lanka Cement Corporation had been mortgaged to the Bank of Ceylon in 2008. The loan amount was restructured to Rs.97,700,000 in 2017 and the remaining balance of the loan as at 31 December 2022 was Rs.48,700,000. Although an interest amount of Rs.12,140,403 was paid in the year 2022 for this loan amount, the rental income of the year from leasing the said land was only Rs.4, 753,438. Accordingly, the corporation had failed to use this land with a very high commercial value wroth about Rs.735 million, for effective investment.

This land is a high commercial value and the implementation of a mixed investment effective project should be done with the approval of the Urban Development Authority Act and the necessary procurement activities are being carried out to find a suitable investor. And that a preliminary feasibility study report has been prepared in this regard and that the report will be submitted to the Board of Directors.

The property owned by the corporation should be used for the effective investment.