Sri Lanka Cement Corporation – 2015

The audit of financial statements of the Sri Lanka Cement Corporation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 (1) of State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

1.4 Basis for Disclaimer of Opinion

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

2. Financial Statements

2.1 Disclaimer of Opinion

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

2.2 Comments on Financial Statements

2.2.1 Consolidated Financial Statements

Even though 62.45 per cent of the shares of the Lanka Cement Company Ltd- a subsidiary of the Sri Lanka Cement Corporation, is owned by the Corporation, the consolidated financial statements had not been prepared for the year 2015.

2.2.2 Sri Lanka Accounting Standards

The following observations are made

Sri Lanka Accounting Standard 16

(a) As the Corporation had been subjected to restructuring, the assets thereof are required to be revalued. Nevertheless, 08 motor vehicles costing Rs.15,392,480 had not been revalued and adjusted to the current market value.

(b) Action had not been taken to assess the land , 5718 acres in extent, buildings and the factory that had been vested in the Corporation in the years 1964 and 1977 by the Gazette notifications.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) According to the balance confirmation sent by the Bank relating to 2 loan accounts and a bank current account of a State Bank, the bank loan interest and the overdraft interest totalled Rs.6,805,093. Nevertheless, that loan interest and the overdraft interest had been accounted for as Rs.15,271,328 in the financial statements. Accordingly, the bank loan interests and the overdraft interests had been overstated by Rs.8,466,235.

(b) As a sum of Rs.3,388,010 and Rs.19,752,464 required to be debited and credited respectively to the Retained Earnings Account by 02 journal entries had not been posted to that account and dividends amounting to Rs.1,728,000 received during the year under review had not been adjusted to the comprehensive income statement, the equivalence of the financial statements was questionable in audit.

(c) Even though clay and limestone deposit 604 acres in extent situated at Pulliyadi Irakkam in Mannar district had been leased out the Corporation on long term basis, action had not been taken to get the ownership of the land established and bring it to accounts.

(d) Even though the increase in opening and closing trade payables of the year under review amounted to Rs.24,814,414, in adjusting the difference of the Working Capital in the cash flow statement received by the operating activities, that increase had been understated by Rs.11,226,932 in the cash flow statement.

(e) Even though the net value of the long term and short term loan obtained and the repayment of loans amounted to Rs.4,580,014, that net value had been overstated by Rs.1,819,094 under the financial activities in the cash flow statement.

(f) Although the value of cash and cash equivalents in the statement of financial position as at 31 December 2015 was Rs.19,909,145, that value had been stated as Rs.29,408,442 in the cash flow statement.

(g) The payable audit fees totalling Rs 516,185 as at 31 December 2015 had not been brought to accounts.

(h) The ledger of the Corporation had been prepared by a computer programme and presented to audit. Nevertheless, the Retained Earning Account appeared in that ledger had not been prepared by that programme and that ledger account entries had been separately typewritten and affixed on the ledger account. Therefore the accuracy of the ledger account presented to audit could not be accepted.

2.2.4 Unexplained Differences

The following observations are made.

(a.) According to the ledger account, the sundry advance balance as at the end of the year was Rs.245,946, whereas that balance was Rs.116,336 according to the Register of Advance furnished to audit . As such, a difference of Rs.129,610 could be observed.

(b.) A difference of Rs. 3,770,794 was observed between the previous years closing balances and the opening balances of 04 ledger accounts of the Corporation.

(c.) Although the value of the Retained Earnings in the statement of changes in equity was Rs.337,660,694 according to the financial statements, that value had been stated as Rs.337,313,622 in the statement of financial position. Accordingly, a difference of Rs.347,072 was observed.

(d.) Even though the balance of a current account of a State Bank as at 31 December 2015 was Rs.148,061 according to the cash book, that balance had been stated as Rs.1,696,150 in the statement of financial position by overstating Rs.1,548,089.

2.2.5 Accounts Receivable and Payable

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The following observations are made.

(a.) Trade and other receivable balance as at 31 December of the year under review amounted to Rs. 80,551,270. Out of that, balances of Rs. 8,245,359, Rs. 14,323,896 and Rs. 57,982,015 had remained outstanding for less than one year, 1 to 3 years, and more than 3 years respectively. Proper steps had not been taken to recover those outstanding loan balances.

(b.) The trade and other payable liability balances as at the end of the year under review amounted to Rs. 93,330,134, of which a sum of Rs. 41,640,831 had remained outstanding for less than one year, a sum of Rs.22,459,105 for 1 to 3 years and Rs.29,230,198 for more than 3 years. Action had not been taken to settle those payable loan balances.

2.2.6 Lack of Evidence for Audit

As the evidence indicated against the following each item of accounts had not been made available to audit, accuracy of those transactions could not be vouched or accepted in audit.

Item of Account	Value Rs.	Evidence not made available
Lands and Buildings	775,295,981	Register of Fixed Assets
Motor Vehicles	15,392,480	Board of Survey Reports
Furniture and Fittings	5,512,601	
Equipment and Communicating Equipment	1,194,398	
Closing stock		
Concrete Productions	6,104,684	
Jaffna- Cement Stock	501,461	
Long Term Loans	56,293,352	Balance Confirmation Letters

2.2.7 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules , Regulations etc.	Non-compliance
(a.) Section 4 of the Nation Building Tax Act, No. 09 of 2009	Nation Building Tax amounting to Rs.11,548,263 that should have been remitted to the Commissioner General of Inland Revenue, had not been remitted.

(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371 (2)	Although the advance obtained should be settled immediately after the completion of the relevant purpose, action had not been taken to settle the advances totalling Rs.83,836 since a period from 2 to 3 years.
(ii) Financial Regulation 396 (d)	Action in terms of the Financial Regulations had not been taken on two cheques totalling Rs.390,485 issued but elapsed a period of more than 06 months.
(iii) Financial Regulation 751	The Corporation had not maintained an Inventory registers.
(iv) Financial Regulation 756 (1)	Action had not been taken to appoint Boards of Survey for the year 2015.
(v) Financial Regulation 757 (4)	Even though a survey should be conducted on assets immediately after the completion of the financial year and the reports thereof should be furnished to the Auditor General, action had not been taken accordingly.
(c.) Public Enterprises Circular, No. PED/12 dated 02 June 2003	
(i) Section 5.1.3	Updated copies of the Corporate Plan approved by the Board of Directors together with the Budget had not been forwarded to the Line Ministry, Department of Public Enterprises, General Treasury and the Auditor General 15 days before the commencement of the financial year.
(ii) Section 8.3.9	Although the resources of the State Corporation, Boards should not be made available to the affairs of the Line Ministry, the cab purchased by the Corporation at a cost of Rs.4.8 million in the year 2011 had been released to the Ministry of Industry and Commerce form the date of purchase.
(d.) Section 02 of the Public Finance Circular No.02/2015 dated 10 July 2015.	Two motor vehicles removed from running had remained condemned position without being taken action to dispose of.

2.2.8 Transactions Not Supported by an Adequate Authority

The following observations are made

(a) Without obtaining a proper approval, a sum of Rs.1,100,000 had been paid to the officers of the corporation for a trip in the years 2014 and 2015.

(b) Although the Corporation had prepared 74 journal vouchers for the year under review, 73 of those journal vouchers had not been approved.

(c) Out of the land, 221 acres in extent situated at Palavi, Puttlam vested in the Corporation by a Gazette notification, a land area of 50 acres had been vested in the project of the Board of Investments in the year 2005 without a proper approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a surplus of Rs.4,344,849 as against the deficit of Rs.13,792,672 for the preceding year, thus indicating an improvement of Rs.18,137,521 in the financial results of the year under review as compared with that of the preceding year. The above improvement was mainly attributed to the writing off of three payable account balances of Rs.19,752,464 in the year under review.

Analysis of the financial results of the year under review and the preceding years revealed that, although the net profit of the year 2011 was Rs.2,600,000, after sustaining continuous losses from the year 2012 to 2014, it had turned out to be a net profit of Rs.4,344,849 again by the year 2015. When taking into consideration the employees remuneration, tax paid to the Government and the depreciation for the non-current assets, the contribution of the Corporation was a positive value of Rs.33,720,000 in the year 2011 and it had been a negative value in the years 2012 and 2013. It had again improved to a positive value of Rs.38,344,849 in the year 2015.

3.2 Analytical Financial Review

The following observations are made.

(a) As compared with the preceding year, the current ratio of the year under review had increased by 58 per cent and the quick ratio had also increased by 87 per cent. It was observed that as the current liabilities had increased by Rs.113,564,793 than the current assets, there had been no adequate liquidity to settle the current liabilities and as such the liquidity of the Corporation was at a weak level.

(b) The sales income amounting to Rs.285,657,759 in the preceding year had decreased up to Rs.40,570,803 by Rs.245,086,956 in the year under review. Failure to import cements after December 2014 up to July 2015 due to the financial difficulties and making supplies on the orders after being registered as the supplier in the Government institutions by entirely ceasing the sale of cement on credit basis have mainly attributed to the above decrease of the sales income.

(c) The Gross Profit amounting to Rs.4,779,245 in the preceding year had turned out to be a gross loss of Rs.10, 210,679 in the year under review. While the direct cost of cement production division was prevailing in a higher level, the huge drop of the sales had been the main reason for sustaining a gross loss. Even though such a gross loss had incurred, a gross profit of Rs.4,344,849 was shown by stating the previous year adjustments of Rs.16,364,454 made on the decision of the Board of Directors under the other income.

4. Operating Review

4.1 Performance

In terms of the Gazette (Extraordinary) No.11634 dated 2 January 1959, the main objectives of the Corporation was to manufacture, import and sale of cement, sale of items made of cement or production of telephone and telecommunication posts, telephone booths, water tanks, hume pipes and tiles inclusive of cement concrete and supply of electronic powers in bulk to any person.

The following observations are made on the achievement of the above objectives.

(a) Even though manufacturing and sale of cement and cement based products was the main objectives of the Corporation, with the cessation of the cement production at Kankassanthura during the past war environment, at present, the main functions of the Corporation have been confined to import and sale of cement bags and the sale of concrete products.

(b) When comparing the Corporate Plan and the Action Plan relating to the year under review with the Performance Report, it had not been prepared in a manner enabling to compare the actual performance.

(c) Although it had been planned to sale cement valued at Rs.574,892,000 during the year under review according to the Corporate Plan, only cement valued at Rs.42,060,062 had only been sold according to the Performance Report. Accordingly, the achieved performance had been 7.3 per cent of the expected target.

(d) Even though plans had been drawn to earn a targeted income of Rs.12,000,000 on the production of concrete posts based products, only an income of Rs.1,026,147 had been earned during the year under review and as such the performance achieved had been 8.6 per cent of the anticipated target.

(e) As the expenditure of the Concrete Production and Marketing Division, Kankasanthure had exceeded its total income, it had sustained a continuous loss. Examination of the losses sustained during the period of past nine years revealed that, the sustained losses had ranged from Rs.30,298 to Rs.19,526,633.

(f) Action had not been taken to review and revise the targeted income and expenditure in the Corporate Plan. Although the total targeted sales income of the Corporate Plan was Rs.613,662,000, the actual income earned had been Rs.67,235,628. Accordingly, 11 per cent of the targeted income only had been achieved. As the import of cement had decreased by 17,500 metric tons in the year 2015 as compared with the year 2014, the sales income had decreased by Rs.245.08 million.

(g) According to the Action Plan, 2015, it had been planned to achieve a sales turnover of Rs.2,055 million by packaging and sale of imported cement stocks and the production capacity of 148,500 million metric tons under the establishment of the new Cement Packaging Factory at Muthurajawela. Those targets had not been included in the Corporate Plan while the Action Plan had not been put into practice to achieve any expected targets at the end of the year.

4.2 Management Inefficiencies

The following observations are made

(a) In order to mine limestones for the production of cement, the Corporation had leased the limestone deposit, 5352 acres in extent situated at Aruwakkalu to a private company for a period of 50 years in the year 1995. The value equivalent to the annual rent of US$202,000 to be recovered according to the lease agreement was Rs.26,664,825 for the year under review. However, as a clause relating to the revision of annual rent had not been included in the agreement reached, instructions had been given to revise this lease agreement at the Committee on Public Enterprises held on 16 August 2011. Nevertheless, action had not been taken accordingly.

(b) Out of the land, 604 acres in extent situated at PulliyadiIrakkam in Mannar District owned by the Corporation, a land area of 10 acres in extent had been granted to settle the displaced families by the District Secretary, Nevertheless. action had not been taken to look into this encroachment and settle the lands.

(c) Although it had been stated in the financial statements by a notice that, action was being taken to lease the land 89.9 perches in extent situated in Kollupitiya and vested in the Corporation by the Extraordinary Gazette Notification No.14756/7 dated 12 July 1967 to a foreign investor on long term basis according to the recommendations of the Standing Reviewing Committee appointed by the Cabinet of Ministers, the examination conducted thereon revealed that the Management had not taken action relating to this long term leasing.

(d) The Divisional Secretariat had constructed houses for the Tsunami victims and settled them on the land 6 acres in extent situated at Unawatuna Kesbapana. Action had not been taken either to settle the ownership of this land owned by the Corporation or recover the compensation.

(e) Encroachers had constructed houses on a block of land 09 acres in extent out of the land situated in Palam, Puttlam. The Management had not taken action to settle the ownership of this land by looking into this matter.

4.3 Idle and Underutilized Assets

It was observed that the land, 741 acres in extent with the factory, the assessed value of which had not been brought to account and the buildings complex valued at Rs.395,000 situated in Kankasanturei owned by the Corporation had remained idle in the custody of Army in the high security zone over a long period of time.

4.4 Uneconomic Transactions

The following observations are made.

(a.) Although 62.45 per cent ownership of the shares of the Lanka Cement Company Ltd commenced in the year 1981 is owned by the Corporation, no return whatsoever had been received by the Corporation for that investment during the period of past 25 years.

(b.) A sum totalling Rs. 10,066,774 had been paid as loan interests by the end of the year under review in respect of the bank loan amounting to Rs.38,704,668 obtained from a State bank in the year 2012 for the payment of compensation to an international company.

4.5 Staff Administration

The following observations are made.

(a.) The approved cadre and the actual cadre of the Corporation had been 76 and 53 respectively and the vacancies stood at 23. It was observed that due to the existence of these vacancies, internal control, duty assigning, internal checking and internal audit activities were not taking place efficiently.

(b.) An officer who had not fulfilled the basic qualifications had been recruited as a Sales and Marketing Officer in the year 2012 and as a result of issuing cement by him on credit basis exceeding the approved credit limit, a financial loss of more than Rs.6 million had incurred. Therefore, his service had been terminated from 04 November 2015. Although complaints had been lodged with the Criminal Investigation Department to recover the loss sustained by the Corporation, action had not been taken to recover that loss.

(c.) Action had not been taken to recruit a qualified officer for the post of Sales and Marketing Officer that had fallen vacant since 04 November 2015.

(d.) Despite the decrease in the total number of staff during the 5 years under review, the total employees cost amounting to Rs.24,410,000 in the year 2011 had increased up to Rs. 29,840,000 by Rs.5,430,000 by the year 2015. Accordingly, the average cost per employee amounting to Rs.358,970 in the year 2011 had increased up to Rs.563,018 by the year 2015.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements and the draft annual report should be furnished to the Auditor General to audit within 60 days from the close of the financial year. Nevertheless, the consolidated financial statements of the Cement Corporation for the year 2015 had not been furnished to audit up to 31 December 2016.

5.2 Action Plan

The following observations are made

(a) In terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the responsibility of the Managers with regard to the objectives and targets required to be achieved within the planned period had not been clearly stated in the Action Plan .

(b) The Performance Reports had not been reviewed once in every three month by the Board of Directors as required by Section 4.2.6 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. Although those should be submitted to the Department of Public Enterprises and the General Treasury before 30 days after the end of the quarter, the Corporation had not taken action accordingly.

5.3 Internal Audit

The following observations are made.

(a) Even though the areas required to be covered according to the audit plan prepared for the year 2015 had been stated, audits had not been carried out accordingly and the audit activities had been mainly confined to the verification of physical stock.

(b) One female officer only had been attached to the Internal Audit Division of the Corporation and it could not be possible to carry out the activities of the Internal Audit Division properly due to the lack of sufficient staff.

5.4 Audit Committees

In terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Audit Committee meetings should be held at least once in every three month. Nevertheless, the Corporation had conducted only 02 Audit Committee meetings during the year 2015.

5.5 Unresolved Audit Paragraphs

Even though the deficiencies such as failure to obtain a security bond in commensurate with the value given on credit in awarding the Post of Sales Representative for the sale of cement on credit basis, not indicating the maximum possible amount of debt in the agreement, not including the strategy relating to the recovery of loan from the defaulters in the agreement, supply of credits again and again despite the failure to settle the loans obtained, furnishing false information for the bank guarantees, failure to take disciplinary action against the officers who approved loans in an irregular manner and not taking follow-up action regarding the outstanding debtor balances had been pointed out even by the previous audit report, the total balance of Rs.52,506,824 had not been recovered even by the end of the year under review.

6. Systems and Controls

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

Areas of System and Control	Observations
(a) Financial Control	Failure to introduce formal financial control systems, not making essential payments such as tax and bank loans, continuing bank overdrafts.
(b) Fixed Assets Control	Failure to maintain Registers of fixed assets and not completing the verification of assets by appointing the Board of Survey.
(c) Stores Control	Maintenance of stocks, inventories and books and registers should be properly maintained and stock damages and demurrage charges should be minimized.
(d) Control of Debtors and Creditors	Failure to recover the outstanding debtor balances, not maintaining the records relating to the credit sales and failure to settle creditors by making payments.