Sri Lanka Cement Corporation - 2014

The audit of financial statements of the Sri Lanka Cement Corporation , and its subsidiary - Lanka Cement Company Ltd for the year ended 31 December 2014 comprising the consolidated statement of financial position as at 31 December 2014 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 the 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 2.2.1 and 2.2.2 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 – Group

Because of the significance of the matters described in paragraph 2.2.1 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements of the Sri Lanka Cement Corporation, and its subsidiary – Lanka Cement Company Ltd. Accordingly, I do not express an opinion on these financial statements.

Disclaimer of Opinion – Corporation.

Because of the significance of the matters described in paragraph 2.2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Sri Lanka Cement Corporation. Accordingly, I do not express an opinion on these financial statements.

2.2.1 Comments on Financial Statements of the Group.

2.2.1.1 Consolidation of the Financial Statements.

Even though the consolidated financial statements had been presented as 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 been prepared based on the non-audited financial statements of the Lanka Cement Company Ltd.

2.2.1.2 Going Concern of the Group

The capital of the Cement Corporation was Rs. 967 million, whereas the accumulated loss amounted to Rs. 81 million. Although the going concern of the Corporation had not been affected, an accumulated loss of Rs. 2,423 million had incurred as per the consolidated statement of changes in equity due to continuous losses incurred by the Corporation, whereas the capital amounted to Rs. 2,702 million. Accordingly, it was observed that 89.7 per cent of the share capital had been eroded. It was observed in the examination of consolidated accounts of the Lanka Cement Company Ltd that going concern was uncertain.

2.2.2 Comments on the Financial Statements of the Corporation

2.2.2.1 Sri Lanka Accounting Standards

The value of 108,361,891 shares at Rs. 10 each that had been invested by the Sri Lanka Cement Corporation in the Lanka Cement Company Ltd, had not been adjusted to the current market value in accordance with Sri Lanka Accounting Standard 13.

2.2.2.2 Accounting Deficiencies

The income earned by leasing out the limestone deposit is the main source of income of the Corporation, and the land covering an extent of 5352 acres in Aruwakkalu where the limestone deposit is located, had not been accounted after being assessed.

2.2.2.3 Unexplained Differences

The following observations are made.

(a.) Differences totalling Rs. 322,422 had been observed in comparing the balances relating to 3 control accounts with the relevant ledger accounts of the Sri Lanka Cement Corporation as at 31 December of the year under review.

(b.) A difference of Rs. 57,780 was observed between the balance of the current account of the Jaffna branch as per the ledger in Head Office, and the balance of the current account of the Head Office as per the ledger in the Jaffna branch.

(c.) A difference totalling Rs. 39,838,480 was observed in comparing the balances relating to 04 control accounts, with the relevant schedules.

2.2.2.4 Accounts Receivable and Payable

The following observations are made.

(a.) The trade creditor balance that remained payable as at 31 December of the year under review amounted to Rs. 68,515,720, and of that, a sum of Rs. 12,000,014 had remained outstanding for 2-3 years , whereas a sum of Rs. 38,453,542 had been in existence for 3 or more years. Action had not been taken to settle those loan balances.

(b.) Trade and other receivable balance as at 31 December of the year under review amounted to Rs. 94,932,379. Out of that, balances of Rs. 4,920,058, Rs. 5,141,093 and Rs. 47,927,159 had remained outstanding for 1 to 2 years, 2 to 3 years, and more than 3 years respectively. An age analysis in regard of debtor balances totalling Rs. 14,134,819, had not been presented to audit.

2.2.2.5 Lack of Evidence for Audit

According to the financial statements, board of survey reports on the fixed assets valued at Rs. 22,081,299, confirmation of balances and age analysis for the debtors totalling Rs. 14,134,819, and board of survey reports on the closing stocks valued at Rs. 5,463,825, had not been presented to audit.

2.3 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 and, etc.	Non-compliance
(a.) Section 2.1 of Value Added Tax Act, No. 14 of 2002	Value added taxes amounting to Rs. 13,358,852 that should have been remitted to the Commissioner General of Inland Revenue in the year under review, had not been remitted. Action had been taken to set off a receivable amount of value added tax totalling Rs. 4,282,739 against the taxes payable to the Commissioner General of Inland Revenue.
(b.) Section 2 of the Nation Building Tax Act, No. 09 of 2009	Nation building tax amounting to Rs.5,002,459 that should have been remitted to the Commissioner General of Inland Revenue, had not been remitted.
(c.) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka	Even though a Board of Survey in respect of assets should be conducted immediately after the end of the financial year and the reports thereon should be sent

		for audit, action had not been taken accordingly.
(d.)	Section 3 of the Financial Statute No.6 of 1990 of the Western Province	The Business Turnover Tax amounting to Rs.7,101,932 relating to the preceding years that should have been remitted to the Western Provincial Commissioner of Revenue had not been remitted.
(e.)	Public Enterprises Circular, No. PED/12 dated 02 June 2003	
	(i) Section 4.2.2	Although the Corporate Plan, the Budget, and the performance should be reviewed periodically, it had not been so done relating to the year under review.
	(ii) Section 8.3.8	In spite of the weak financial position of the Corporation, and without the approval of the Cabinet, donations and aids valued at Rs. 54,121 had been granted in the year under review.
(f.)	Public Enterprises Circular, No. PED/28 dated 21 January 2005.	Approval of the Director General of Public Enterprises should be obtained in obtaining vehicles on lease. However, the Corporation had not complied with that requirement.
(g.)	Treasury Circular No. 842 dated 10 December 1978	A register on fixed assets had not been maintained.
(h.)	Management Services Circular No. 05/2014 dated 21 November 2014	Only a sum of Rs. 5,000 should be paid as bonus by the Public Corporations that had reported losses in the year. Nevertheless, a sum of Rs. 364,500 had been paid to 27 employees at Rs. 13,500 as annual bonus. Accordingly, a sum of Rs. 229,500 had been overpaid as bonus.

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 deficit of Rs.14,490,896 as compared with the deficit of Rs.424,686,915 for the preceding year. As such, the deficit of the year under review had decreased by a sum of Rs. 410,196,019 as compared with that of the preceding year. The decrease in the deficit had mainly been caused by the decrease of the administrative expenses by a sum of Rs. 418,821,486 in the year under review as compared with the preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

(a.) As the main activity of both the Sri Lanka Cement Corporation and the Lanka Cement Company Ltd, at present is to import and sell cement in the local market, it was observed that both institutions were engaged in the same activity. Although it had been decided at the Committee of Public Accounts meeting held on 16 August 2011 that both of the institutions be combined, it has not been effected so far.

(b.) The Concrete Products and Sales Division at Kankasanturei had incurred losses from 2007 to 2014, and the loss incurred in the year under review amounted to Rs.18,765,596.

4.2 Management Inefficiencies

Due to management inefficiencies such as , failure to obtain a surety bonds to the value of the credit being given, failure to indicate the maximum credit limits allowed in the agreement, non-inclusion of the methodology in the agreement relating to the recovery of debts from those who defaulted the payment of debts, supply of goods again and again despite inability to pay back the debts, providing fraudulent information for the bank guarantees, failure to take disciplinary actions against the officers who approved loans improperly, and failure to take follow-up actions on the recoverable loan balances, in selecting sales agents for selling cement on credit basis, loan balances amounting to Rs. 66,249,030 could not be recovered by the end of the year under review.

4.3 Uneconomic Transactions

The following observations are made.

(a.) Although more than 16 years had elapsed since the Corporation had invested a sum totalling Rs. 671,843,724 in the Lanka Cement Company Ltd, no return whatsoever had been received by the Corporation even up to the end of the year under review.

(b.) No return whatsoever had been received during the period from 2004 to 2014 in respect of the sum of Rs. 6,400,000 invested by the Corporation in a private company.

(c.) A sum of Rs. 3,497,634 had to be paid as interest on bank loans obtained for paying compensation to an international company.

4.4 Idle and Under-utilized Assets
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The following observations are made.

(a.) As the building complex with the factory and lands in extent of 752 acres owned by the Corporation in Kankasanturei, and the land of 211 acres in extent situated in Murunkan, Mannar, had been in the custody of Army in the high security zone, those assets had remained idle due to war that raged over a long period of time.

(b.) Lands in the areas such as Putlam, Palavi, and Kalladi in extent of 152 acres had remained idle without being utilized for a useful purpose. Of that, encroachers had built houses on a plot of land with an extent of 09 acres. As those lands remained overgrown in a useless and unsecure manner, it could not be possible to prevent the encroachers from dwelling.

(c.) Although it had been revealed as per documents that 1,191 acres of lands with clay and limestone deposit spanning over 604 acres in Puliyadu Irakkam in Mannar district belongs to the Corporation on long term lease, the ownership could not be established as the documents had been destroyed owing to war in the past. It was observed that action was being taken to grant those lands to displaced families.

(d.) The land in Galle with 06 acres and 11 perches in extent that had been owned by the Corporation, and not been disclosed in the accounts, had remained idle.

4.5 Identified Losses

Demurrages amounting to Rs. 145,329 had been paid as the cement imported had not been released on time.

4.6 Personnel Administration

The following observations are made.

(a.) As the approved cadre, and the actual cadre of the Corporation had been 76, and 57 respectively as at 31 December of the year under review, there were 20 vacancies and one officer in excess. Of that staff, 33 had worked at the branch in Kankasanthurei, and as the land had been taken over by the Army, a voluntary retirement scheme was in progress after being presented to the Treasury through the Ministry.

(b.) An underqualified person had been recruited to the post of Sales and Marketing Officer of the Corporation contrary to the recruitment policy stated in the Circular, No. MSD 30 dated 17 November 2011, and a sum of Rs. 485,400 had been paid to him as salaries in the year under review.

5. Accountability and Good Governance

5.1 Action Plan

Action had not been taken to review and amend the targeted income and expenditure in accordance with the Action Plan for the year under review. Although the targeted income from sales amounted to Rs. 832,000,000, the actual income amounted to Rs. 285,657,759. Thus, only 34 per cent of the targeted income had been reached.

5.2 Procurement Plan

A Procurement Plan for the year under review covering the entire Corporation had not been prepared in terms of Section 5 of the Public Enterprises Circular, No. PED/12 of 02 June 2003.

5.3 Unresolved Audit Paragraphs

The Sri Lanka Cement Corporation had leased out a limestone deposit in extent of 5,352 acres in Aruwakkalu to Holcim Lanka (Pvt) Limited in the year 1995 for a period of 50 years in order to mine limestone for the production of cement. The rental recoverable per year amounted to Rs. 26,516,620 according to the agreement, whereas the Corporation was not able to amend the rental throughout the entire 50 years as per the conditions of the agreement. As such, at the meetings of the Committee on Public Enterprises held on 16 August 2011 had instructed that the lease agreement relating to the said limestone deposit be amended. However, action had not been taken accordingly even up to 25 August 2015.

6. Systems and Controls

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

(a.) Financial Control
(b.) Debts Receivable and Payable
(c.) Fixed Assets
(d.) Stores Control