Building Material Corporation Limited - 2014

The audit of the financial statements of the Building Material Corporation Limited ("the Company") for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) 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 Auditors' Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

1.4 Basis for Disclaimer of Opinion

(a) The Company has incurred a net loss of Rs.20,377,779 for the year ended 31 December 2014. Hence, the Company's total liabilities exceeded its total assets by Rs.362,497,307 and Company's current liabilities exceeded its current assets by Rs. 92,556,793 as at 31 December 2014. Further, I noted that the gross profit margin for certain products of the Company was negative and various parties have claimed for the legal title of the properties of the Company due to non-payment of loan repayments and some of them have already filed legal cases against the Company. These events indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) for the year under review do not disclose this fact along with necessary disclosures regarding the existence of plans management has put in place or the existence of other mitigating factors.

(b) The Company has obtained loans, borrowings and advances from several government entities. However, I was not provided relevant loan agreements or other supporting documents for loans or advances obtained from the Ministry of Housing and Construction, HDFC Bank and Co-operative Wholesale Establishment (CWE) to review the terms and conditions relating to such loans, borrowings and advances. Therefore, I was unable to obtain sufficient appropriate audit evidence to satisfy myself about the fair presentation on the loans, borrowings and advances balances aggregating Rs.295,763,813 as at 31 December 2014 in accordance with SLFRS for SMEs.

(c) Due to unavailability of the above loan agreements or other supporting documents (as stated in “b” above) I was unable to obtain sufficient appropriate audit evidence regarding the completeness of finance cost amounting to Rs. 9,496,215 for the year ended 31 December 2014.

(d) The Company does not maintain a Fixed Assets Register or detailed schedules in relation to property, plant & equipment and I was unable to confirm or verify alternative means concerning the valuation and completeness of property, plant & equipment included in the statement of financial position at a total amount of Rs.35,414,634 as at 31 December 2014.

(e) The Company neither made impairment (provisions for bad and doubtful debts) for long outstanding receivables nor provide appropriate explanations regarding the recoverability of the same. Therefore, I was unable to satisfy myself or by alternative means, regarding the recoverability of trade receivables amounting to Rs.52,767,568 as at 31 December 2014.

(f) The Company has not set off receipts against the receivables from staff (miscellaneous account in the financial statements represents the advances given to employees) amounting to Rs. 3,895,553 as at 31 December 2014. Therefore, the said account balance remains as unsettled as at the reporting date.

(g) I was not provided sufficient appropriate evidence with regard to long outstanding balances of trade, BTT, income tax payable and ECS receivable and existence, rights and obligation of deferred income aggregating Rs. 93,087,519 as at 31 December 2014.

(h) There is a difference of Rs.1,665,084 between the Bank of Ceylon confirmation for bank overdraft and the general ledger balance due to under accrual of interest for the year ended 31 December 2014.

(i) The Company has not identified related party relationships, transactions, outstanding balances, including commitments and determining the disclosures to be made about those items between the Company and its related parties as at 31 December 2014. This is a departure from SLFRS for SMEs.

(j) The Company has not made relevant disclosures with regard to the categories of financial assets and financial liabilities as required by SLFRS for SMEs. Further, I noted that there are several defaults and breaches on loan payables. However, the Company has not made disclosures as required by SLFRS for SMEs.

Owing to the above, I was unable to verify property, plant & equipment, trade and other receivables, deferred tax asset, loans and borrowings, trade and other payables, income tax payable, finance cost, related party transactions and disclosures and related disclosures for financial instruments in the financial statements. As a result of these matters, I was unable to determine whether any adjustments were necessary in respect of the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended 31 December 2014.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion Paragraph 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.

2.1.1 Other Matter

The financial statements of the Company for the year ended 31 December 2013 were audited by another firm of Chartered Accountants in public practice who expressed an unmodified opinion on those financial statements on 20 December 2014

2.1.2 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No. 07 of 2007, I state the following:

a. The basis of opinion and scope and limitations of the audit are as stated above.

b. In my opinion:

- I have not obtained all the information and explanations that were required for the audit as stated above. Hence, I do not express an opinion on these financial statements.

2.2 Accounts Receivable and Payables

The following observations are made

(a) There was a credit balance of Rs. 15,055,591 in the debtors aging and debit balance of Rs. 1,124,149 in the creditors aging. However, it had not provided with adequate explanations as to the reason for such credit and debit balances and not properly re-classified as payables and receivables respectively in the financial statements for the year under review.

(b) There are long outstanding trade payables for over 180 days amounting to Rs. 41 million. The management has not provided proper explanations for such long outstanding balances.

(c) Adequate explanations were not provided for three long outstanding balances aggregating Rs 3.96 million as at 31 December 2014.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulations	Non – compliance
Companies Act, No. 07 of 2007	
(i) Section 220 - Duties of Directors on Serious Loss of Capital.	The Board shall within twenty working days of that fact becoming known to the Director, call an extraordinary general meeting (EGM) of shareholders of the company for the purposes of this Section, to be held not later than forty working days from that date of calling of such meeting. However, the Company has failed to hold an EGM.
(ii) Section 150 - Obligation to prepare the financial statements	The Company has failed to prepare the financial statements within six months after the reporting date as mentioned in the Act.
(iii) Section- 133- Annual General Meeting	Although the Company shall call an annual general meeting of shareholders to be held once in each Calendar year not later than six months after the reporting date of the Company and not later than fifteen months after the previous annual general meeting, the Company has failed to hold AGM to date.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Company for the year under review had resulted in a deficit of Rs.359,368,037 as compared with the corresponding deficit of Rs.339,238,578 in the preceding year, thus indicating a further deterioration of Rs.20,129,459 in the financial results for the year under review. Severe decrease in turnover and increase in administration expenditure were the main reasons attributed for this deterioration in the financial results for the year under review.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the information made available, some important ratios of the Company for the year under review and the preceding year are as follows.

(a) Current Ratio of the Company has decreased to 0.643 times in 2014 as compared with 0.767 times in previous year and it is a sign of unhealthy working capital position.

(b) It was observed that there is no point to calculate Debt to Equity Ratio as the value of total equity has negative and there is no any debt capital.

4. Operating Review

4.1 Performance

It was unable to ascertain the Company's financial and physical performance due to unavailability of set out targets and the progress reports thereon for the year under review. Further, a Corporate Plan and an Annual Action Plan had not been prepared by the Company.

4.2 Uneconomical Transactions

It was observed that the Company has invested in a computerized payroll system which is not currently utilized effectively for the payroll preparation as part of payroll has been performed manually. Further, the effectiveness of the inventory system is questionable as the Company could not obtain monthly stock values from the existing inventory system.

4.3 Procurements

Although according to Guideline 3.4.3 of the Procurement Guidelines 2006 the registered list of suppliers should be updated periodically at least once a year, the Company did not have the registered list of suppliers in year under review.

4.4 Human Resources Management

The Company had not established any approved Cadre. However, the Cadre has increased by 72 per cent in year 2014 to 2016.

5. Systems and Controls

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

Control Area	Observations
(a) Assets Management	Failure to carry out a physical verification of fixed assets.
(b) Financial Management	- Unavailability of matrix for payment approval limits. - Not maintaining sequence numbering order for the payments, invoice and receipts. - Not preparing the bank reconciliations for three current accounts. - Not maintaining credit limits for corporate customers.
(c) Accounts Receivable and Payables	Absence of a process to call confirmations from debtors and creditors periodically.
(d) Control over Management Information Systems	Using a common password to user access for computers.