

Building Materials Corporation Limited – 2015

The audit of the financial statements of the Building Materials Corporation Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Management 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.60,609,649 for the year ended 31 December 2015. Hence, the Company’s total liabilities exceeded its total assets by Rs.418,146,224 and Company’s current liabilities exceeded its current assets by Rs. 160,987,462 as at 31 December 2015. Further, it was noted that the gross profit margin for certain products of the Company were 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 initiated 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 management plan 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 with 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

- (c) relating to such loans, borrowings and advances. Therefore, I was unable to obtain sufficient appropriate audit evidence to satisfy myself about the fair presentation of loan balances, borrowings and advance aggregating Rs.283,283,813 as at 31 December 2015. Further, due to unavailability of said loan agreements or other supporting documents, I was unable to obtain sufficient appropriate audit evidence to verify the completeness of finance cost amounting to Rs. 1,431,854 shown in the financial statements for the year ended 31 December 2015.
- (d) The Company does not maintain a Fixed Assets Register or detailed schedules for 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. 35,478,584 as at 31 December 2015.
- (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 regarding the recoverability of trade receivables amounting to Rs. 21,053,227 as at 31 December 2015.
- (f) The Company has not setoff 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 2015. Therefore, the said account balance remains as unsettled as at the reporting date.
- (g) Sufficient and appropriate audit evidence were not made available to verify the existence, right and obligation of deferred income (government grant for compensation) amounting to Rs.38,299,070 as at 31 December 2015.
- (h) I was not provided sufficient and appropriate audit evidence in respect of outstanding trade and other payable, BTT, trade debtors, prior year adjustments, inventories and debit balance of restricted reserve account aggregating to Rs.148,966,070 as at 31 December 2015.
- (i) There was a difference of Rs.12,458,885 and Rs.27,549,830 between the balances of three creditors and outstanding loan respectively shown in the third party confirmations and the general ledger as at 31 December 2015.
- (j) I was unable to obtain sufficient appropriate audit evidence regarding the recoverability of deferred tax asset amounting to Rs 546,173 as at 31 December 2015.
- (k) The Company has not identified related party relationships, transactions, and outstanding balances, including commitments and made disclosures thereof as required by SLFRS for SMEs.
- (l) 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, it was noted that there were several defaults and breaches on loan payables.

Owing to the above, I was unable to verify property, plant & equipment, trade and other receivables, deferred tax assets, loans and borrowings, trade and other payables, 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 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2015.

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.

Other Matter

The financial statements of the Company for the year ended 31 December 2014 were audited by another firm of Chartered Accountants in public practice who expressed an Disclaimer opinion on those financial statements on 15 February 2017.

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 Comments on Financial Statements

2.2.1 Lack of Evidence for Audit

The following items of accounts could not be satisfactorily vouched or accepted in audit due to lack of evidence stated against each item.

Item	Value Rs.	Evidence not made available
Loans and borrowings	282,783,813	Loan agreements and confirmations
Trade and other receivables	34,506,868	Confirmations
Restricted Reserve Account	(16,113,722)	Detail schedules
Lease Creditors	663,938	Detail schedules
Retirement Benefit obligation	8,689,595	Detail schedules
Bank over draft Boc Hyde park	(19,967,703)	Confirmations
Bank over draft Boc corporate	(91,975,654)	Confirmations

Branch

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 -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) FR 395	Bank Reconciliation Statements should be furnished to the Auditor General on or before the 15 th of following month. However, the particulars of reconciliations and the bank statements relating to nine bank balances of the Company aggregating to Rs. 127,451,480 debit balances and Rs.5,404,784 credit balances had not been furnished to audit.
(ii) FR 1645	Log Books had not been properly maintained in the Form General 267 with regard to vehicles belonging to the corporation.
(b) Section 2.10 Of chapter VI of Establishment Code	Copies of the letters related to the recruitments, transfers, promotions, payments of salary increments and disciplinary actions against the employees had not been furnished to audit.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Paragraph 4.2.6	The quarterly performance reports should be submitted to the line Ministry and the Department of Public Enterprises ,Treasury on or before 30 days before the end of the quarter.However such performance reports had not been submitted.
(ii) Paragraph 4.3	The minutes of the Board Meetings

should be submitted to the line ministry within 10 days. but work had not been carried out like that.

(iii) Paragraph 5.1.3

The updated copies of the Corporate Plan approved by the Board together with the updated Annual Budget had not been submitted to the Auditor General at least 15 days before the commencement of each financial year.

(iv) Paragraph 5.2.5

The budget updated overall by the Board had not been submitted to the Auditor General not later than 15 days before the commencement of the ensuing year.

(v) Paragraph 6.5.1

The draft Annual Report and Accounts had not been submitted to the Auditor General within 60 days after the close of the financial year.

(d) Treasury Circulars

(i) Circular No. 842 of 19 December 1978

An updated Fixed Assets Register had not been maintained.

(ii) Circular No. I/A/I/2002/02 of 28 November 2002

A Register of Computers had not been maintained as instructed by the Circular.

(e) Public Administration Circular No 09/2009 dated 26 April 2009

All employees should use the finger print machines for their arrivals and departures. However, the Company had not used a finger print machine.

(f) Companies Act, No. 07 of 2007

(i) Section 220

The Board shall call within twenty working days of that fact becoming known to the Directors, 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.

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| (ii) | Section 150 | The Company has failed to prepare the financial statements within six months after the reporting date as mentioned in the Act. |
| (iii) | Section – 133 | 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 balance sheet date of the Company and not later than fifteen months after the previous Annual General Meeting. However, 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 loss of Rs.60,609,648 as compared with the corresponding loss of Rs.20,377,779 in the preceding year, thus indicating a further deterioration of Rs. 40,231,869 in the financial result 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 0.410 times in 2015 as compared with 0.643 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

As per the section 3.4.3 of the Procurement Guideline 2006, A list of registered suppliers should be updated periodically at least once a year. However, the Company failed to fulfill the requirement for the year under review.

4.4 Human Resources Management

Without an approved cadre, the company had not been an increased the existing cadre 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	Observation
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(a) Assets Management	Failure to carry out a physical verification of fixed assets.
(b) Financial Management	(i) Unavailability of matrix for payment approval limits. (ii) Not maintaining sequence numbering order for the payments, invoice and receipts. (iii) Not preparing bank reconciliation statements.

(iv) Not maintaining credit limits for corporate customers.

(c) Information systems

Using a common password to user access for computers.