Lanka Cement PLC Ltd -2016

The audit of the financial statements of the Lanka Cement PLC Ltd for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and the 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. I was assisted by a Firm of Chartered Accountants in Public Practice in carrying out this audit. My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 my audit. I conducted my audit 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 paragraph 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, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because 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 Going Concern of the Company

The Company had sustained losses from the year 1984 up to 2016 (except 2008) and a position of negative net assets amounting to Rs.628,478,493 and Rs.634,157,397 existed in the years 2015 and 2016 respectively. Further, the cement factory at Kankasanturei was completely destroyed during the previous war situation and the function of the Company had been limited only to the import and sale of cement bags. Under the circumstances, proposals had been submitted to the Secretary to the Ministry of Industry and Commerce for the complete elimination of the Government ownership by removing the employees after payment of compensation under the restructuring process in the year 2016 by the Director General of the Department of Public Enterprises on 20 October 2016. Accordingly, the above matters adversely affect the going concern of the Company.

2.2.2 Sri Lanka Accounting Standards

The following non-compliances are observed.

(a) Sri Lanka Accounting Standard 7

Even though a sum of Rs.20,000,000 obtained from sale of iron at the Cement Factory at Kankasanturei had been invested in a fixed deposit, it had not been considered in the preparation of cash flow statement.

(b) Sri Lanka Accounting Standard 16

(i) Provision for depreciation had been made and shown to the previous value of Rs.229,957,152 as the assets of the Factory without being verified the existing value due to the Cement Factory at Kankasanturei had been destroyed before many years.

(ii) Depreciation for the office equipment at a net value of Rs.156,255 had not been computed and brought to account in the year under review.

2.2.3 Lack of Evidence for Audit

The evidences indicated against following items of account was not made available to audit and as such those could not be satisfactorily vouched or accepted in audit.

Item	Value Rs.	Evidence not made available
(i) Deferred Grants	74,197,970	Letters relating to grants
(ii) Property, Plant and Equipment	229,957,152	Registers of Fixed Assets, Physical Board of Survey Reports.
(iii) Trade and other money receivable	11,210,170	Letters of Confirmation of Balances and files of loans.
(iv) Trade and other money payable	40,433,807	Letters of Confirmation of Balances and files of loans.
(v) Stock of Cement	3,188,671	Physical Board of Survey Reports.
(vi) Long term money payable	757,223,883	Documents on Confirmation of Balances and relevant loan documents.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The balances receivable as at 31 December 2016 amounted to Rs.11,810,170 and out of that, the loan balances old between 1 to 3 years had been Rs.1,434,486 while the loan balances over 3 years old amounted to Rs.10,375,684. Action had not been taken to recover those outstanding loan balances.

(b) The balances payable as at 31 December 2016 amounted to Rs.61,908,116 and out of that the loan balances less than 1 year had been Rs.17,652,150 while the loan balances old between 1 to 3 years amounted to Rs.10,665,998 while the loan balances over 3 years old amounted to Rs.33,589,968. Action had not been taken to settle those loan balances.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	Companies Act, No.7 of 2007 Section133(1) (a) and (b)	Even though the Annual General Meetings for the shareholders should be held by the Board of Directors within 06 months after the close of the year of accounts, the Annual General Meetings had not been held from the year 2010 to the year 2016.

(b) Public Enterprises Circular No.PED/12 of 02 June 2003	
(i) Section 4.2.6	The Performance Report of the year under review should be analytically reviewed by the Board of Directors and presented to the Department of Public Enterprises and the General Treasury before the elapse of 30 days after the end of the quarter. Nevertheless, the Company had not taken action accordingly.
(ii) Section 5.1	Even though the Corporate Plan should be realistic and acquirable , according to the statistics on import of cement included in the Corporate Plan prepared for the period of 2016-2021 by the Company , a target had been made for 300,000 Metric Tons in the year 2016. However, the actual import was 8,260 Metric Tons.
(iii) Section 5.1.3	The updated copies of the Corporate Plan which approved by the Board of Directors should be sent to the Line Ministry, Department of Public Enterprises, the General Treasury and the Auditor General at least 15 days before the beginning of the financial year with the updated Annual Budget . Nevertheless, action had not been taken accordingly.
(iv) Section 9.3.1 (vi) and (vii)	Two acting appointments had been granted exceeding the period of 03 months for 02 posts contrary to the Circular instructions .
(c) Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained on the building and vehicles totalling Rs.74,738,644.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating result of the Company for the year under review had been a loss of Rs.5,678,904 as compared with the corresponding loss of Rs.8,048,091 for the preceding year, thus indicating an improvement of Rs. 2,369,187 in the financial result as compared with the preceding year. Even though the administrative expenses and the distribution expenses had been increased by Rs.8,772,736 and Rs.4,336,630 respectively ,increase of other income by Rs.18,794,381 had been the main reason for the improvement in the financial result.

4. Operating Review

4.1 Performance

The Articles of Association No.PBS 1123 dated 03 September 1981 of the Company includes 33 objectives including import, manufacture and sale of cement , manufacture of cement related products, making investments, acting as agents and improvement of assets as the objectives of establishing the Company.

The following observations are made with regard to the achievement of objectives mentioned above.

(a) The Company was carrying out only the import and sale of cement by the year 2016, while the attention of the Management had not been paid to none of the other objectives expected to be achieved by the Company in the establishment of the Company.

(b) The Company had imported 8,260 Metric Tons of cement during the year 2016 and a cost of Rs.75,708,623 had been incurred by the Company for that purpose. The Company had sold all 8,260 Metric Tons of cement during the year. Out of that an income of Rs.110,587,354 had been earned . As the total sales cost of the Company amounting to Rs.107,201,864 , only a gross profit of Rs.3,385,490 had been earned during the year.

4.2 Management Activities

In terms of the Letter No.PE/RES/VRS-1-2016 dated 20 October 2016 addressed to the Secretary to the Ministry of Industries and Commerce by the Director General of the Department of Public Enterprises , the Company should handed over the land at Kankasanturei to the Cement Corporation and sold the shares of 62.45 per cent owned by the Corporation and shares of 12.82 per cent owned by the Government at the share market and gained a profit to the Government and the proposed new Corporate Plan of the Corporation implemented in an appropriate manner and the progress therein should be informed to the Ministry of Finance. The management had not taken action to implement the relevant proposals.

4.3 Staff Administration

The Corporation had been re-structured during the year 2016 and the then staff as at that date had been resigned from the service on 31 July 2016 under the volunteer compensation scheme. Afterwards, 3 employees of the tertiary level had been recruited under the contract basis on a decision made by the Board of Directors.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements and the Draft Annual Report should be presented to the Auditor General within 60 days after the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the Company for the year under review had been presented to the Audit only on 07 July 2017.

5.2 Internal Audit

An Internal Audit Unit had not been functioned for the Corporation in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka and an internal audit had not been carried out for the year under review by the Internal Audit Unit of the Ministry as well.

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 Company from time to time . Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
(a) Accounting and Financial Control	Failure to introduce a proper system of financial control, failure to make essential payments such as tax and loans, non-maintenance of a proper system of accounting/control accounts and reconciliations in recording cash receipts and cash payments by the Company, the accuracy and completeness thereof could not be verified.
(b) Fixed Assets Control	Non-maintenance of Registers of Fixed Assets, failure to appoint Boards of Survey and to verify the assets and non-revaluation of assets including the Factory.
(c) Debtor and Creditor Control	Failure to take action to recover the due loan balances and improper maintenance of the relevant reports in detail.
(d) Operating Control	(i) Methods of internal control were at a weak level after resignation of the staff including the Internal Auditor with the re-structuring of the Company in July 2016. (ii) Non- maintenance of reports in accordance with tax laws of the Government and action had not been taken to proper payment of taxes.