Lanka Building Materials Corporation Limited - 2017

The audit of the financial statements of Lanka Building Materials Corporation Limited ("Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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.

Due to the delay in the submission of the financial statements from the year 2017 to the year 2020 that should be submitted in terms of Section 150 (1) of the Companies Act No. 07 of 2007, a report on the operational activities from the year 2017 to the year 2020 was tabled in Parliament on 29 April 2022 under category 9/17 and this report is further issued in accordance with provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibilities of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard 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 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 (SLAuSs). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Disclaimer of Opinion

(a) As the company had not maintained a fixed asset register or a detailed schedule, it was not possible to confirm the completeness of property, plant and equipment amounting to Rs.30.17 million and the value of depreciation amounting to Rs.1.41 million indicated in the statement of financial position as at 31 December 2017.

(b) Action had not been taken even during the year under review to value and account 21 parcels of land owned by the company and it had been wrongly stated in note No. 2.3 under the accounting policies of the financial statements that provision for depreciation had been made for the freehold lands.

(c) The net loss incurred by the Company for the year ended 31 December 2017 had been Rs.86.60 million and the accumulated loss of the Company as at 31 December 2017 had been Rs. 691.77 million. Moreover, the current liabilities exceeding the current assets of the Company as at that date had been Rs. 268.46 million (113 percent) and the total liabilities exceeding the total assets of the Company had been Rs. 694.90 million (260 percent). According to the information submitted to the audit, various parties had claimed to legally transfer the properties of the Company kept as securities for the loan due to non-repayment of the loan duly and 03 creditors had filed lawsuits against the Company. According to these facts, it was observed that there is a material uncertainty about the going concern of the Company.

Nevertheless, the Company had to convene an extraordinary general meeting of the shareholders of the Company in accordance with Section 220 of the Companies Act No. 07 of 2007 and to discuss the nature and extent of the losses incurred by the Company and the cause of the losses, and the measures, in case any measures had been taken by the Board of Directors to prevent the occurrence of such losses or to offset the losses and a report prepared by the Board of Directors had to be sent to the shareholders, such action had not been taken in that manner.

(d) As per the statement of financial position as at 31 December 2017, the stock value for sale had been Rs.68.88 million. Nevertheless, it had not been possible to verify the accuracy of those stocks and the physical availability of those stocks as at that date due to non-availability of stock verification reports and stock ledgers.

(e) The documents on advance and relevant primary evidence had not been submitted to the audit to confirm the accuracy and recoverability of the various advance balances, totalling to Rs. 3.34 million that had not been settled within more than 04 years, out of the receivable advances included in the financial statements.

(f) Although Rs. 431.3 million of loans and advances obtained from 08 government institutions had been indicated under non-current liabilities of the statement of financial position of the Company, the related loan agreements or other supporting documents, details and balance confirmations to review the terms and conditions related to obtaining the loans had not been submitted to audit. Although the loan amount obtained from Housing Development Finance Corporation, out of these loan amounts, had been indicated as Rs. 40.86 million, it was observed during an audit examination that the land kept by the Company as a security in obtaining that loan amount had been taken over by the Corporation and accounted it as an investment asset due to non-payment of the loan amount at the time that the financial statements of the Housing Development Finance Corporation for the year 2021 were examined. Furthermore, the loan amount of Rs.7.5 million received from the Housing Development Authority had not been included in the financial statements of that Authority according to audit confirmations and any information could not be obtained from the Company or the Ministry regarding the loan amount of Rs. 51.40 million, indicated as obtained from the Ministry of Housing Construction.

(g) According to the decision of the Cabinet of Ministers bearing No. CP/07/1625/342/021 dated 27 September 2007, an advance of Rs. 50 million had been obtained by the Company on 22 February

2008 to vest a plot of land in extent of 100 perches, out of a land belonged to Lanka Building Materials Corporation Limited located at Sri Sangharaja Mawatha of Colombo 12, to the Inland Revenue Department. It was observed that the aforementioned Cabinet decision had been cancelled by a Cabinet decision bearing No. 12/0446/540/005 dated 07 May 2012 and the advance amount obtained had to be repaid. Although this advance amount had been indicated under non-current liabilities in the statement of financial position, it had been indicated through a note to the financial statements that the Inland Revenue Department had mentioned that there had been no such obligation.

(h) The balance of 04 bank accounts had been indicated as Rs.6.54 million and overdraft balance of 08 bank accounts had been indicated as Rs. 161.81 million respectively under current assets and current liabilities in the statement of financial position as at 31 December 2017. However, the balance in relation to 05 bank accounts had been Rs. 1.55 million and overdraft balance in relation to 03 bank accounts had been Rs. 23.01 million in the examination of bank confirmations. Bank confirmations or bank statements related to 04 bank accounts had not been submitted to audit. Accordingly, the bank balance and overdraft balance in the statement of financial position amounting to Rs.4.99 million and Rs.138.80 million respectively had not been confirmed by bank confirmations. Furthermore, the difference between the bank confirmations presented related to 08 bank accounts and the cash balances of the statement of financial position had been Rs. 15.88 million.

(i) The Company had stated that there had been a destruction in data in the computer system in the year 2019 and therefore, the balance of the cash book could not be found correctly and the correctness of the opening and closing balances of the cash book could not be confirmed owing to that reason. Furthermore, monthly bank reconciliation statements had not been prepared in relation to the 12 bank accounts. Due to this, it had not been possible to confirm the differences between the cash and bank transactions and the reasons for those differences in the audit.

(j) A sum of Rs. 36.13 million, which had been the prior year adjustments that had not been included in the statement of comprehensive income had been adjusted to the loss of the year in the cash flow statement for the year ended 31 December 2017. It was observed that a sum of Rs.20.76 million, out of this, had been the provision for gratuity and the remaining Rs. 15.88 million had been the total of the differences between the balances of the cash book related to 08 bank accounts and the bank statements.

(k) Action had not been taken even during the year to pay nation building tax, business turnover tax, value added tax and economic service charges totalling to Rs. 74.93 million including a sum of Rs. 10.36 million for the year 2017 and action had not been taken to recover value added tax receivable amounting to Rs.30 million. Detailed schedules, tax returns, tax calculations of the value added tax etc. had not been submitted to audit and as a result, their accuracy could not be verified.

(l) Although a debit balance amounting to Rs. 16.11 million had been continuously brought forward in the statement of financial position as restricted reserve under equity, sufficient and appropriate evidence such as basic documents, schedules and related approvals containing the necessary details to confirm the accuracy, completeness and existence of that balance had not been submitted to audit.

(m) The completeness and accuracy of the sales revenue amounting to Rs. 816.27 million indicated in the financial statements could not be verified as 33 invoices had been missing during the examination of the sales invoices according to the serial number order.

(n) As the name of the creditor or identification code related to the purchases of cement worth Rs.8.29 million recorded on 31 December 2017 in the creditor's ledger had not been mentioned, it had not been possible to identify a creditor for that liability. The name of the creditor had not been included in the purchase order and other information related to the identification of the creditor had not been submitted to audit.

(o) Balance confirmations of trade creditor balances amounting to Rs. 156.48 million and trade debtor balances amounting to Rs. 79.11 million indicated in the statement of financial position and debtor and creditor age analysis had not been submitted to audit. Therefore, the accuracy, completeness and existence of those balances could not be confirmed. Although the value of trade creditors had been indicated as Rs.156.48 million in the financial statements, the balance had been Rs.156.89 million according to the ledger accounts and as a result, a difference of Rs.0.41 million was observed and the reasons for the difference had not been submitted to audit.

(p) Balance confirmations for bank guarantees worth Rs. 24.37 million, out of the bank guarantees worth Rs. 36.37 million indicated in the financial statements, had not been submitted.

(q) It was observed that the value of 06 purchase vouchers amounting to Rs. 9.68 million had not been included in the purchase account as revealed in an audit test check. Therefore, the accuracy of the purchase value amounting to Rs. 744.83 million included in the cost of sales in the statement of comprehensive income could not be confirmed. Moreover, the files containing the information on procurement related to purchases had not been submitted to audit.

(r) It was not possible to vouch the accuracy, relevance, completeness of the payments made in relation to the year under review in the examination of the payment vouchers as 126 vouchers worth Rs.22.42 million related to those payments made in the year under review had not been submitted to audit.

(s) Although it had been indicated that the balances receivable to two private companies as at 31 December 2017 had been Rs. 43.40 million according to the letters submitted by the Chairmen of those two companies in the year 2022 informing to repay the outstanding loans, the creditor balance according to the ledger had only been Rs.16.96 million. Accordingly, it was observed that the difference between the creditor balances indicated in the credit inquiry letters and the creditor balances in the ledger had been Rs. 26.44 million. However, the reasons for the difference had not been submitted to audit.

(t) The interest payable in relation to the year under review for the balance of the loan received from People's Bank amounting to Rs. 136.54 million as at 31 December 2017 had been understated by Rs. 1.12 million in the statement of comprehensive income. Due to this reason, the loss for the year had been understated by that amount.

(u) Action had not been taken even during the year under review to repay the outstanding interest amounting to Rs.25.82 million as at 31 December 2017 for the loan balance of Rs.75 million obtained from the Department of Cooperative Development in the year 2013.

(v) Government aid receipts amounting to Rs. 38.29 million, which had been for the payment of compensation, entered as deferred revenue under trade and other payables in the statement of financial position had been carried forward in the accounts without making provision for amortization even before the year 2012. Evidence was not submitted to audit to confirm as to whether the compensation had been paid using that money.

I was not able to examine the property, plant and equipment in financial statements, trade and other receivables, loans and temporary loans, trade and other payables, (purchases, sales) income taxes payable, financial costs, related party transactions and disclosures and disclosures related to financial instruments due to the aforementioned matters. As a result of these matters, I could not conclude whether any adjustments are required in relation to the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended 31 December 2017.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters indicated in the Basis for Disclaimer of Opinion section of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Therefore, I do not express an opinion on these financial statements.

2.2 Reporting on the other legal and regulatory requirements

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

(a) Basis for opinion, scope and limitations of the Audit have been mentioned above.

(b) I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion due to the matters indicated in the Basis for Opinion section of this report. Therefore, I do not express an opinion on these financial statements.

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

The following instances of non-compliance were observed during the audit.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	**Public Enterprises Circular No. PED/12 dated 02 June 2003**	
(i)	Paragraph 5.1.3	Even though copies of the Corporate Plan updated and approved by the Board of Directors and the annual budget should be submitted to the Auditor General 15 days prior to the commencement of the next fiscal year, they had not been submitted in that manner.
(ii)	Paragraph 6.5.1	Although annual financial statements and draft annual reports must be submitted to the Auditor General within 60 days after the end of

the accounting year, it had been indicated in the letter of reply dated 09 February 2022 sent by the Chairman for the audit query bearing No. BMC/IN/NAO/2022/AQ/01 mentioning that the computer server that had been used by Lanka Building Materials Corporation Limited had been deactivated due to a virus attack in September 2019 and as virus protection (Firewalls) had not been installed and backups had not been available at that time, information required to prepare the accounts had been destroyed and as a result, it had not been possible to prepare the financial statements from the year 2017 to the year 2019. Nevertheless, action had not been taken to identify the parties responsible for not executing the control methods in the computer system and to take disciplinary action.

Moreover, a complaint had been filed in the Criminal Investigation Department on 28 April 2022 as per the directives made by the Committee on Public Enterprises held on 19 April 2022, information has not yet been reported regarding the actions taken in that regard, and the financial statements related to the year 2017 had been submitted to audit on 08 August 2022, after a delay of more than 4 years.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the result of the operations of the company for the year under review had been amounted to a loss of Rs. 89,600,540 and the corresponding loss in the preceding year amounted to Rs. 94,711,011 and as a result, a decrease of Rs. 5,110,471 (5%) was observed in the loss for the year under review. This decrease in the loss of the financial result for the year under review had been mainly due to the increase in the income by Rs. 99,674,341 despite an increase of Rs. 49,250,123 in administrative expenses, distribution expenses and financial and other expenses.

4. Operational Review

4.1 Procurement Management

The Government Procurement Guidelines - 2006 had not been followed for the purchases amounted to Rs. 744,834,762 indicated in the financial statements and purchases had been made from the other suppliers, other than the registered suppliers.

4.2 Management of Vehicle Systems

According to the information submitted to audit, the Company had been using 05 vehicles owned by the Ministry for a number of years and action had not been taken to transfer the ownership of those vehicles.

5. Accountability and Good Governance

5.1. Tabling of Annual Report in Parliament

As per Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the annual reports from the year 2015 had not been tabled in Parliament.