

BCC Lanka Limited – 2017/2018

The audit of financial statements of the BCC Lanka Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 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. 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's Responsibility for the Financial Statements

The Board of Directors 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 Board 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. 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 judgment, 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 Company's preparation and fair presentation of the 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, 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 Qualified Opinion

The following observations are made.

- (a) Action had not been taken to review the useful life of fully depreciated assets costing Rs. 49,304,291 which were being used continuously by the Company.
- (b) In the calculation of profit from businesses of the Company, interest income had not been treated as a separate income in terms of 3 (e) of the Inland Revenue Act, No. 10 of 2006. As such, the expenditure on income tax of the year under review had been understated by Rs. 1,393,577 thus, overstating the profit by the same amount.
- (c) The accuracy and the existence of the debtors and creditors amounting to Rs.1,420,474 and Rs. 4,577,421 respectively shown in the financial statements as at 31 March 2018 could not be verified due to unavailability of confirmation of balances and other relevant evidence.
- (d) The reliability and accuracy of the outstanding balances such as turnover tax, defense levy, goods and services tax, rates and taxes and value added tax aggregating Rs.58,111,396 shown in the financial statements over a period of twelve years could not be ascertained in audit due to unavailability of adequate evidence.
- (e) As per the financial statements of the Company as at 31 March 2018 the amount payable to Janatha Estate Development Board (JEDB) was Rs.4,508,696. However, as per the financial statements of the JEDB, there was no such a balance payable. Further, the accuracy of this balance payable was doubtful in audit due to non-availability of other alternative evidence to verify this balance.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the BCC Lanka Limited as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

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

- (a) The basis of and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - Except for the effects of the matters described in the basis for qualified opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company
 - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act, No. 07 of 2007.

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

The following non-compliances with Laws, Rules Regulations and Management Decisions were observed.

Reference to Laws and Rules,

Non-compliance

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| (a) (a) and (b) of Section 133 (1) of the Companies Act, No.07 of 2007 | Even though the Board of Directors shall call an annual general meeting of shareholders within 06 months after the close of the year of accounts, annual general meetings for the year 2017 and 2018 had not been held. |
| (b) Section 78 of the Articles Of Association | Even though the Board of Directors of the Company should be comprised of 07 members, it had been comprised of only 05 members. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 104 | Even though a sum of Rs.86,800 had been spent for the repairs to a Lorry owned by the Company which had met with an accident, only a sum of Rs.55,800 had been received as indemnity insurance. Action in terms of Financial Regulation had not been taken for fixing responsibility in respect of the loss of Rs.31,000 sustained by the company. |
| (ii) Financial Regulation 110 | A Register of Losses had not been maintained. |
| (d) Public Enterprises Circular No.PED/12 of 02 June 2003 | |
| (i) Paragraph 4.2.2 | Only 04 meetings of Board of Directors had been held during the year under review and as such, the |

- performance of the Company had not been monthly reviewed in terms of the Circular.
- (ii) Paragraph 5.2.1 As the year of accounts of the Company had been from 01 April 2017 to 31 March 2018, the Budget should be prepared for the said period. Nevertheless, it had been prepared covering the period from January to December 2017.
- (iii) Paragraph 8.2.2 Even though the concurrence of the Minister of Finance and the relevant Minister should be obtained in investing surplus funds, a sum of Rs.85,619,918 had been invested without obtaining such approval.
- (e) Guideline 4.2.1 of the Government Procurement Guidelines -2006 A Procurement Plan for the year under review had not been prepared.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a net profit of Rs.1,471,934 as compared with the corresponding net profit of Rs.21,687,425 for the preceding year thus indicating a deterioration of Rs.20,215,491 in the net profit of the year under review as compared with the preceding year. The decrease in other operating income by Rs.15,361,818 and the increase in administration expenses by Rs.8,108,064 had been the main reason for the said deterioration.

3.2 Analytical Financial Review

Ratio -----	2016/2017 -----	2017/2018 -----
Gross Profit Ratio Percentage	8	4
Net Profit Ratio Percentage	16	1

The Gross Profit Ratio and Net Profit Ratio of the Company had decreased by 4 per cent and 15 per cent respectively as compared with the preceding year. Increase in the purchase price of coconut oil and non-increase in the sales price comparatively, losses in the sale of soap, decrease in other income and increase in the administration and distribution expenses had been the main reasons for the said deterioration.

4. Operating Review

4.1 Management Activities

Cabinet Papers No.CP/15/1874/702/010 dated 17 December 2015, No.CP/16/0597/731/009-1 dated 20 April 2016 and No.CP/2016/1277/724/052 dated 21 June 2016 had given approval to grant a plot of land of 06 acres for the construction of “Adhikarana Piyasa” in Colombo, 04 acres to rehabilitate the Remand Prison for the facilitation of renovation of the Prison Headquarters and to grant 02 acres, 03 roods and 8.77 perches to the Urban Development Authority for a commercial purpose, from the lands with an extent of 12 acres, 03 roods and 8.77 perches belonging to the BCC Lanka Limited.

4.2 Operating Activities

The following observations are made.

- (a) The Company had not maintained Process Accounts for the manufacturing process and as such, information on profit/loss earned or sustained in respect of 02 products and normal or abnormal wastage occurred in production could not be identified.
- (b) Even though a sum of Rs.831,858 had been spent for a construction work in respect of the installation of oil machine of the Palm Oil Packaging Project during the year under review, the said Project had not been commenced even by the date of this report.
- (c) The Management had not taken action to write off the obsolete stock valued at Rs.603,267.

4.3 Identified Losses

A penalty of Rs.42,139 had been paid due to the delay in the payment of income tax for the assessment year 2013/2014 by the Company.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Even though a sum of Rs.100,000 had been invested for the purchase of shares of the Ceylon Hotels Corporation by the Company about 30 years ago, no dividend whatsoever had been received therefor.
- (b) The Volvo car provided by the Ministry of Public Enterprise Development for the use of Company, had not been used over a period of 02 years by 02 August 2018 the date of audit.
- (c) The balance amounting to Rs.1,227,921 of the Current Account maintained in the National Development Bank from the year 2013, had not been credited to the Current Account as per the decision of the Board of Directors dated 21 December 2017 and

further, confirmation of balances pertaining to the said balance had not been obtained after the year 2014.

- (d) The Cab provided for the use of Wathupitiwala Factory from 07 February 2018 had been run only for 17 days as at 31 July 2018, the date of audit as per the Daily Running Chart.
- (e) Hume pipes had been purchased at a cost of Rs.91,048 in May 2017 for the requirements of drainage system in the premises of Head Office while those had remained idle without being used even by 31 July 2018.

4.5 Staff Administration

A Scheme of Recruitment had not been prepared to obtain the approval for the staff in terms of the Management Services Circular No.30 of 2006 dated 22 September 2006, thus it could not be satisfied with the categories of salary in audit.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations while the BCC Lanka Limited had not been aware of the manner in implementing the functions that come under its scope pertaining to the year under review.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No.PED/27 of 27 January 2015, every Government owned Company should present the financial statements to the Auditor General within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented to the Audit only on 08 October 2018.

7. Systems and Controls

Special attention is needed in respect of conducting a physical verification on fixed assets.