Lanka Cement Ltd – 2017

The audit of financial statements of Lanka Cement PLC for the year ended 31 December 2017 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. Financial Statements for the year ended 31 December 2017 that should be furnished in terms of Section 150(1) of the Companies Act, No.07 of 2007 had not been furnished even by the date of this Report. My observations which I consider should be furnished to the 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

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 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 Going Concern

Thirty- three objectives including manufacturing cement, importing and selling cement and manufacturing cement related products had been stated as the main objective of the Company, in terms of the Articles of Association of the Company. However, the Kankasanthurai Cement Factory had been completely destroyed with the war prevailed within the past few years and the function of the Company had been restricted to importing and selling cement.

The employees had been vacated from service by the payment of compensation under the restructuring of Public Institutions in the year 2016, with the prevailing condition and only one Officer recruited on contract basis had been deployed in service even by the date of this Report. However, even importing cement had been abandoned from March 2017 and even the period of lease of the land of which the Cement Factory located, had been expired in the year 2012.

Moreover, the Company had obtained losses totalling Rs.15,322,215,025 continuously from the year 1984 to the year 2016 (excluding the year 2008) and a condition of negative net assets amounting to Rs.628,478,493 and Rs.634,157,397 respectively had been occurred in the years 2015 and 2016.

However, it was observed in the audit that the above condition had continuously affected towards the going concern of the Company.

2. Financial Statements

2.1 Presentation of Financial Statements

Even though the Financial Statements and the Draft Annual Report should be furnished to the Auditor General within 60 days after the close of the Year of Accounts in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Financial Statements and the Draft Annual Report of the year 2017 of the Company had not been furnished to the Auditor General even by the date of this Report. However, the Books of Accounts and Registers of the Company relating to the year under review had not been maintained and updated and not obtaining the assistance of an Accountant had directly affected towards the delay in furnishing the Accounts.

2.2 Existence of Assets and Liabilities

Details on the Assets, Liabilities, Income and the Expenditure stated in the financial statements as at 31 December 2016 finally prepared by the Company appear below.

Assets	**Value**
	Rs.
Non- current Assets	230,229,406
Current Assets	45,021,489
Total Assets	**275,250,895**
Liabilities	
Current Liabilities	76,192,007
Non- current Liabilities	833,216,284
Total Liabilities	**909,408,291**
Net Capital and Reserve Deficit	(634,157,396)
Total Income	36,019,576
Total Expenditure	41,698,481
Deficit of the Year	**(5,678,905)**

2.3 Receivable and Payable Accounts

Action had not been taken to pay a total sum of Rs.8,831,890 as payable Business Turnover Tax, Economic Service Charges Tax, payable Income Tax before the year 2015 even by the last date of the year under review.

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

Instances of non- compliance with laws, rules, regulations and management decisions observed in the audit appear below.

Reference to Laws, Rules and Regulations	**Non- compliances**
(a) Sub- sections (a) and (b) of Section 133(1) of the Companies Act, No.07 of 2007.	Even though an Annual General Meeting should be conducted within 06 months after the close of the Year of Accounts, an Annual General Meeting had not been conducted for the year 2017.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Even though 02 Motor Cars given to the Chairman of the Company by the Line Ministry had been

Financial Regulation 104	subjected to accidents, action had not been taken in terms of the Financial Regulation in this connection.
(c) Section 5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	Even though a Corporate Plan had been prepared by the Company from the year 2016 to the year 2021, it was observed in the audit that it had not been prepared in compliance with the financial position and the Restructuring Guidelines. Moreover, key factors such as the resources currently belonging to the Institution, Management Competencies and Technical Knowledge, Organizational Structure, Operating Results of 03 preceding years, Performance had not been included therein, in terms of Section 5.1.2.
(d) Section 7.4(c) of the Listing Rules of the Colombo Stock Exchange.	The Bonds Market Transactions of the Company had been suspended on not furnishing the accurate interim financial statements from September 2014 to September 2016 to the Colombo Stock Exchange, by the Company.

3. Operating Review

3.1 Management Activities

The following observations are made.

(a) The accumulated loss as at 31 December 2016 amounted to Rs.2,369,264,877 and the net assets of the Company as at that date amounted to Rs.634,157,396. As such, even though awareness should be raised on the above matter by calling for a Special Meeting of the Shareholders within 20 days in terms of Section 220 of the Companies Act, No.07 of 2007, action had not been taken accordingly by the Board of Directors even by the date of this Report.

(b) Action had not been taken to “provide income to the Government by selling 62.45 per cent of stocks belonging to the Cement Corporation and 12.82 per cent to stocks belonging to the Government, remaining in the Company, in the Stock Market” and to reimburse the money provided for restructuring by the Treasury after the Restructuring Process in terms of the Letter of the Additional Director General of the Department of Public Enterprises No.PE/RES/VRS-1-2016 of 20 October 2016.

(c) Even though a sum of Rs.229,957,152 had been stated as the value of the Cement Factory located in Kankasanthurai and the value of those assets in the Financial Statements as at 31 December 2016, those assets had been destroyed several years ago and action had not been taken to revaluate and to identify the fair value even by the date of this Report.

3.2 Uneconomic Transactions

The following observations are made.

(a) A sum of Rs.450,400 had been spent in the year under review for the key functions of the establishment of a Cement Factory planed, as per the Action Plan. However, these proposals could not be implemented in terms of the instructions given to the Company by the Treasury on the present financial difficulties and after vacating employees from service by the payment of compensation, those expenditure incurred had been a fruitless expenditure.

(b) A total sum of Rs.1,328,526 had been paid as Demurrages in the year under review.

4. 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	Not introducing proper methods of financial control, not making essential payments such as taxes and loans, not preparing Bank Reconciliation Statements accurately and not updating Bank Reconciliation Statements.
(b) Control of Fixed Assets	Not maintaining Registers of Fixed Assets, not surveying assets by appointing Boards of Survey and not revaluating assets including the Factory.
(c) Control of Debtors and Creditors	Not taking steps to recover the recoverable loan balances and not maintaining Reports relating thereto properly and with details.