Ceylon Ceramics Corporation – 2017

The audit of finance statements of the Ceylon Ceramics Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive income statement, statement of changes in equity and 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 read in conjunction with Section 13 (1) of the Finance Act, No 38 of 1971 and Section 29 of the State Industrial Corporations Act, No.49 of 1957. My Comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report. A detailed report in terms of section 13 (7) (a) of the finance Act was issued to the competent Authority of the corporation on 28 September 2018.

1.2 Management's 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 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, in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer

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, comprehensive income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer Opinion

Because of the Significance 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. I do not express an opinion on these financial Statements.

2.2. Comments on Financial Statements

2.2.1 Going Concern of the Corporation

There was a negative balance of net assets at the end of the year 2016 and 2017 as Rs.525,639,091 and Rs.494,151,362 respectively. The permanent staff was limited to 39 employees and 04 factories out of the 09 factories were closed down due to the previous civil war situation and lack of raw material up to the year under review. The Director Board of the institution had been removed from the year 2010 and competent Authority had been appointed to leased the factories of the corporation and to expedite the restructuring process immediately. This had cause badly affected to continuous existence of the corporation.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standards - 02

In Accordance with the Accounting policy of the corporation and Sri Lanka Accounting Standard 02, finished stock should be reported to the less amount out of cost or net realizable value but finished stock of Rs.76,818,311 as at 31 December 2017 had been calculated at market and stated in the Financial Statements.

b) Sri Lanka Accounting Standards - 10

Four factories owned by the Corporation had been shut down from 25 January 2018 and stoppage of this production and renting the Wa uda factory and leasing out it's premises for a new project proposal had not been disclosed in the financial Statements.

2.2.3 Accounting Deficiencies

The following observations are made.

a) A sum of Rs.150,000 of vehicle rent paid in the year under review with regard to year 2016 was accounted as vehicle rent of the year 2017 and vehicle rent of Rs.300,000 payable for last 2 months of the year 2017, was not accounted as accrued.

b) No provision for audit fees had been made by the corporation for the year under review.

c) Trade License fee for tile production and production cost totalling to Rs.215,597 which should be include in the cost of production had been accounted as establishment and administration expenditure.

d) Expenditure incurred for the transportation of tiles as at 31 December of the year under review totalling to Rs.2,453,691 had been accounted as production expenses.

e) Payable employee salaries in respect of 8 contract employees tatalled to Rs.123,024 payable as at 31 December 2017 had not been accounted.

f) Medical allowance payment totalling to Rs.751,540 relevant to the year 2016, paid in the year under review had been accounted as an expenditure of the year under review.

g) Payable building rent for the year under review in respect of maintain of the head office building had not been accounted.

h) Expenses totalled to Rs. 284,912 paid to the Central Environment Authority and Geological Survey and Mines Bureau to obtain Sand Mining License during the year under review had been accounted as an asset.

i) Without correctly identifying the cost of sales of the Uswewa factory as at 31 December 2017 Financial Statements had been prepared taking into cost of sales as a negative values as Rs. 5,201,313 Therefore the gross profit for the year had been overstated by Rs. 10,402,326

2.2.4 Unexplained Differences

Although the value receivable from the Janatha Estate Development Board according to the financial statements of the year under review was Rs. 5,000,000, according to the balance confirmation letter of the Janatha Estate Development Board was Rs.2,005,435 and it was observed a difference of Rs.2,994,565.

2.2.5 Suspense Account

The debit balance of Rs.2,737,166 as at 31 December 2017, of the Suspense Account had been written off against the retained profit without correcting the accounts.

2.2.6 Lack of Evidence for Audit

The following items of accounts could not be the satisfactorily vouched or accepted in audit due to non presentation of evidence indicated against each.

Item	Value Rs.	Evidence not Furnished
(a) Lands and Buildings	23,755,784	Title Deeds or other legitimate documents.
(b) Trade and other debtors.	9,317,527	Balance confirmation letters and debtors files.

(c) Tile credit account (Distress loan)	87,460	Journal voucher and supporting evidence for the journal voucher.
(d) Tax payable	175,903,306	Tax files, sufficient written documents to ensure the tax liabilities and calculation sheets.
(e) Income tax receivable	1,221,666	
(f) Fixed assets	104,513,418	Board of Survey reports.
(g) Bad debts	741,207	Detailed schedules.
(h) Debtors	452,478	

2.3 Receivable and Payable Accounts

The following observations are made.

a) Out of the total of Rs. 11,634,693 of Trade and other receivable balances as at last day of the year under review, Rs. 8,904,674 was the total of debt balances less than 1 year, Rs. 2,316,853 was the total of debt balances within 2 to 3 years and Rs.413,166 was the total of debt balances over 3 years. No action had been taken to recover these debt balances.

b) Out of the total of Rs. 55,107,544 of Trade and other payable balances as at last day of the year under review, Rs. 2,709,763 was the total of debt balances less than 1 year, Rs. 1,635,154 was the total of debt balances within 1 to 2 years, Rs. 500,000 was the total of debt balances within 2 to 3 years and Rs.50,262,627 was the total of debt balances over 3 years. No action had been taken to settle these debt balances.

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

The following instances of non-compliance with Laws, Rules and Regulations etc. were observed during the course of audit.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
	(i) Financial Regulation 135	Authority for Financial control had not been assigned in written.

	(ii) Financial Regulation 138	Payments amounting to Rs.555,013 had been done using 8 payment vouchers without presenting confirmation invoices and related documents.
	(iii) Financial Regulation 394	Twenty five cheques valued at Rs. 1,592,187 had been cancelled without acting in accordance with the regulation
(b)	Section 4.2.6 of Public Enterprises Circular No PED/12 dated 02 June 2003	The performance report should be reviewed once in three months and submitted to the Department of Public Enterprises and the Treasury prior to 30 days of expiration of the quarter but had not been complied to it.
(c)	Section 4(B) of Public Finance Circular No 02/2015 dated 10 July 2015	As mentioned in the circular, although vehicles registered over 10 years should be disposed no action had been taken to disposal of 10 unused vehicles present at the factories of the corporation.
(d)	Treasury Circular No 842 dated 19 December 1978	Fixed asset register had not been maintain in updated manner with regard to lands, buildings and vehicles totalled valued at Rs. 38,884,097 of the corporation.

3. Financial Review

3.1 Financial Results

According to the financial Statements presented, the financial result of the corporation for the year under review shown a net profit of Rs.37,077,618, compared to net profit for the previous year amounting to Rs.12,500,267 and increase of Rs.24,577,351 in the financial result in comparison to the previous year. This was mainly due to the decrease in cost of sales by Rs. 74,813,395 in comparison to year 2016, though the sales income of the year under review was decreased by Rs. 24,217,593.

The analysis of the financial results of the year under review and 4 previous years, a loss was in the year 2014 but years 2013, 2015,,2016 and 2017 shown net profits. However, the contribution for the financial result when readjusting the employee emoluments, government tax, depreciation for the non-current assets was Rs.35,980,387 in the year 2013, but it had been decreased to Rs. 10,978,743 in the year 2014. However, in the year 2015 the contribution of Rs. 51,538,247 had been gradually increased and at the end of the year 2017 it was Rs. 111,216,265.

3.2 Analytical Financial Review

The corporation current ratio stood at 0.34 in the year 2015 and by the year 2017 it has rapidly increased to 2.33. This was mainly due to the increase in stock by Rs. 55,511,752 in comparison to the year 2016 and Rs.176,263,306 of total tax payable accounted as a current liabilities in the year 2016 had been accounted as a long-term liabilities in the year 2017. It was observed that although the current ratio of the year under review has increased, as cash and bank balances in comparison to the last year has decreased by Rs. 24,924,059, the institution was in a weak position to settle the current liabilities.

The quick asset ratio of the Corporation in 2015,2016 and 2017 was 0.12, 0.21 and 0.49 respectively. As the cash and bank balances of Rs. 31,021,865 in the year 2016 was decreased to Rs.6,097,806 by Rs. 24,924,059, the Quick assets ratio was in a weak condition by the end of the year under review.

4. Operating Review

4.1.1 Planning

The following observations are made.

a) In accordance with the Section 5.1 of Public Finance Circular No 01/2014 dated 17 February 2014 although a corporate plan should be prepared for at least 3 years period and should be presented for approval of the Secretary of Ministry, The Corporation had not prepared a corporate plan.

b) In accordance with the Section 5 (2) of Public Finance Circular No 01/2014 dated 17 February 2014, the commercial activities to be done in future year, annual budget, annual procurement plan and the human resource development plan have not been included in the action plan based on the business plan prepared by the institution.

c) The progress of achieving each objectives mentioned in the action plan had not been included in the performance report of the year under review.

4.1.2. Activation and review

Corporation was established in accordance with the Section 29 of State Industrial Corporation Act No. 49 of 1957. The following observations were made to identify the powers and functions in accordance with the Extra Ordinary Government Gazette dated 01 August 1958.

a) The four factories owned by the Corporation out of the 09 factories had been closed down due to the shortage of materials and war. In 2017, Only the Mahiyangana factory had incurred a loss of Rs. 2,659,720 and the total profits for the four factories in the Eragama, Uswewa, Yatiyana and Bingiriya factories were Rs. 54,266,008.

b) Yatiyana and Bingiriya factories had incurred a loss of Rs 8,806,596 and Rs.666,821, in 2016 respectively, but over that loss profits in the year 2017 were Rs. 625,689 and Rs. 3,060,579 were obtained.

c) The value of total finished goods of 05 factories in the year under review was Rs.75,910,602 and the total of finished goods for the previous year was Rs.16,556,354. The value of finished goods increasing by Rs.59,354,248 has resulted in the decrease in the loss at Mahiyangana factory and increase in profit of the other four factories.

d) The expected production capacity for Bingiriya and Uswewa factories were 1,516,000 and 368,000 units respectively and the actual production were 292,232 units and 1,114,321 units. Accordingly, the production of Bingiriya factory had decreased by 81 per cent and the production of Uswewa factory had increased by 203 per cent.

e) Although the total production at Uswewa factory was 1,114,321 units, total sales were 357,155 units. Accordingly, only 32 per cent of the production had been sold.

f) Although the production sales income had increased from the year 2013 up to 2016, in comparison to the year 2016, it has decreased by Rs.24,217,593 or 16.5 per cent in the year 2017.

4.2 Management Activities

The following observations are made.

a) A competent Authority was appointed since 01 July 2010, after the removal of Chairman and the Board of directors based on a decision by the Cabinet of Ministers to restructure the institution in the objective of leasing all 09 factories for private investors on long term basis. Accordingly employees had been sent on retirement under the voluntary compensation scheme since 31 March 2012, action had not been taken to leased out any of the factories up to 31 July 2018 and 05 factories had been run deploying employees on contract and daily paid basis.

b) The total amount in the increase of finished goods as at the last day of the year under review in comparison to the previous year was Rs.59,223,575. Out of that finished goods value of Rs.33,706,824 or 57 per cent of finished goods had been remained at Uswewa factory and no action had been taken by the management to sell these goods.

4.3 Transactions of Contention Nature

Three project suggestions were received to the corporation without calling for project suggestions in order to start a new project in Mawathagama Weuda tile factory and in the it's premises in the year under review. Based on these suggestions this factory building and the premises in process of leasing out even at the audit inspection carried out in July 2018.

4.4 Uneconomic Transactions

Following observations are made

a) The payment of gratuity in accordance with Para 5 (1) of Section II of the Gratuity Payments Act No. 12 of 1983 has not been calculated and payments have to be made within the prescribed period and due to the delay in presenting the Reports “ C ” of the Employee Trust Fund, a surcharge payment of Rs.145,110 had to be paid for the year under review.

b) Based on a letter dated 16 February 2017 by the Secretary to the Ministry of Public Enterprises Development, a total compensation of Rs.500,000 had been paid during the year under review to two employees who faced various problems on political reasons.

4.5 Identified Losses

Twelve Thousand five hundred and thirty three Sevana special tiles valued at Rs. 719,165 which have been stored at the Mahinganaya factory not sold within 15 to 20 years, have been removed from the stock, as those dissolved due to storing at the same place.

4.6 Staff Administration

The following observations are made.

a) Eight employees were recruited in the year under review without the Treasury approval, although employees of the institution were sent out in the 2012 under a voluntary pension scheme.

b) Although an institution should have an organizational plan with approved staff according to the section 9.2 of the above Circular and the relevant organizational plan and the approved staff should be registered with the Department of Public Enterprises, under the restructuring in the year 2012, the corporation had not taken any action to get the approval for the organizing plan and the staff after removing the employees with compensation.

c) A total salary of Rs.390,000 including Rs.50,000 for the year 2016 and Rs.340,000 for the year 2017 was paid to an employee working at the staff of Public Enterprise and Kandy Development Ministry.

5. Sustainable Development

5.1 Achieving Sustainable Development Objectives

The following observations are made.

a) All government institutions should act in accordance with the Sustainable Development agenda of year 2030 of United Nations, but the corporation was not of how they Act accordingly in respect of activities coming under the subject of the corporation.

b) As the corporation was not aware of the 2030 agenda, they have not taken action to identify the Sustainable Development Objectives, goals, milestones to achieve those goals and indexes to measure the achievement of those goals.

6. Accountability and Good Governance

6.1 Non presentation of Financial Statements

Although financial statements and draft annual reports should be submitted to the Auditor General within sixty days closed of the financial year in accordance with the Section 6.5.1 of Public Enterprises Circular No. PED 12 dated 02 June 2003, the financial statements of the Corporation was submitted on 19 July 2018.

6.2 Procurement and Contract Process

6.2.1 Procurements

The following observations are made.

a) As per the Section 4.2 of the Government Procurement Guidelines No. 08 of 25 January 2006, the corporation had not prepared a procurement plan for the year under reviewed and, together without the preparation of such a plan, a set of capital items worth of Rs.1,166,207 had been procured.

b) According to the National Procurement Guidelines, without following proper procurement procedure, 50 acres of paddy land belonging to the Eragama factory, had been leased out for a person for a period from 11 August 2017 up to 15 March 2018 for Rs.565,000 obtained under 4 divisional prices.

6.3 Budgetary Controls

According to Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and Section 8 (1) of the Finance Act No.38 of 1971 a budget for the year under review had not been prepared.

6.4 Tabling of Annual Reports

According to Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Good Governance the audited accounts and audit reports should be tabled in all three languages within 150 days in the parliament, but annual reports from the year 2010 up to 2015 had not been tabled even up to 31 July 2018 in the parliament.

7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Competent Authority of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Control	**Observations**
(a) Financial Control	Non recruitment of a permanent Accountant for Account Division and not implementing a proper internal control system.
(b) Staff Administration	Recruiting staff without approval after the implementation of voluntary retirement compensation scheme
(c) Operational Control	Non implementation of the factory leasing procedure.

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