

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Cement Corporation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation ;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to Standard	Comments to particular Management	of the Recommendation
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(a) Sri Lanka Accounting Standard (LKAS) 7

The income totalling Rs.4,376,820 received from investment of properties had been recorded as a cash flow

Action is taken to rectify.

The cash flow statements should be prepared according to the Standard.

received from operating activities instead of being recorded as a cash flow received from investing activities.

(b) Sri Lanka Accounting Standard (LKAS) 40

- (i) According to paragraph 33 of the Standard, the Corporation had chosen the Fair Value Model for measuring the investment property. However, investment property had not been brought to account as at 31 December 2018 based on its fair value. No financial facilities with the Corporation for taking action annually in terms of the Standard. Standards and policies should be selected so as to suit the Corporation and action should be taken accordingly.
- (ii) In terms of paragraphs 05 and 16 of the said Standard, the railway engine of which the residual value is Rs.750,000 could not be defined as an investment property. However, it had been recorded as investment properties in the financial statements. I accept it. Action will be taken to represent them accurately in ensuing years. The financial statements should be prepared in terms of Standards.
- (iii) In terms of paragraph 4(b) of the said Standard, non-regenerative resources cannot be disclosed as investment properties. However, the Aruwakkalu Limestone Deposit. I accept it. Action will be taken to represent them accurately in ensuing years. Disclosures should be made in financial statements in terms of the Standard.

had been recorded as an investment property.

(c) Sri Lanka Financial Reporting Standard (SLFRS) 05

In terms of paragraphs 38 and 41 of the Standard, the non-current assets valued at Rs.750,000, classified as held for sale and discontinued operations, had been recorded as investment property in the statement of financial position.

Action will be taken in terms of the Standard by studying thereon.

According to the reply, action should be taken in terms of the Standard.

1.5.3 Accounting Deficiencies

----- Audit Observation	Comments of the Management	Recommendation
(a) A land of 241.56 acres in extent located at Kankesanthurai had been vested on 08 July 1960 with the Corporation by the Gazette Notification No.12156 of 08 July 1960 and the Plan No. A 2099. According to the Plan relating to the said vesting of land, it was observed that two oil storage tanks as well are available with Corporation and action had not been taken to assess and account the said land and oil storage tanks.	All documents for confirmation of the ownership of the land have been submitted to the relevant company.	These assets should be valued and brought to account.
(b) The Aruwakkalu Limestone deposit of 5,423 acres 2 roods and 36 perches in extent located at Puttalam District, vested with the Corporation by the Gazette Notification No.283/2 of 20 September 1977, had been recorded as 5,352 acres in extent in the financial statements. Moreover, action had not been taken to value and account this land which was leased out to the Holcim Lanka Ltd, (at present Siam City Cement (Lanka)	A high cost has been requested by the Valuation Department to value the said land. However, the Corporation cannot bear such a cost.	Action should be taken to value and account these assets.

Limited) for a period of 50 years.

- (c) A land of 170 acres, 02 roods and 28 perches in total extent comprising Lot Nos. 09, 12 and 14 of land called Attawillu located at Palawi in Puttalam District, which should be brought to account under lands of the financial statements, had been valued at RS.61,200,000 by the Valuation Department and this land had been brought to account as investment property in the financial statements. Action is taken to rectify. Action should be taken to correct them.
- (d) In the accounting of audit fees payable relating to the years 2016 and 2017, the expenditure had not been brought to account along with tax totaling Rs.140,121. Action will be taken to rectify in future. In terms of the reply, accounts should be rectified by accounting audit fees with lease rental.

1.5.4 Un-reconciled Control Accounts or Records

Item	Value as per Financial Statements Rs.	Value as per Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
Fixed Assets	9,427,096	5,827,487	3,599,609	Registers of Fixed Assets had been prepared in the year 2016 and only the cost of assets that can be recognized has been included.	All assets should be recorded in Registers by recognizing them.

1.5.5 Consolidation

Audit Observation

A sum of Rs.1,083,618,910 had been invested in 108,361,891 shares of Rs.10 of the Lanka Cement PLC in the year 1981 by the Corporation. Even though 62.45 per cent of the shares of the subsidiary of the Lanka Cement PLC, is owned by the Corporation, the consolidated financial statements for the year under review had not been

Comments of the Management

As financial statements for the year 2018 of the Company have not been prepared, consolidated financial statements could not be prepared.

Recommendation

The consolidated financial statements should be prepared and presented to Audit.

prepared by the Corporation.

1.5.6 Lack of Evidence for Audit

Item	Amount Rs.	Evidence made available	not	Comments of the Management	Recommendation
(a) Trade and other Receivable Balances	72,999,219	Letters Confirmation Balances	of	Letters Confirmation Balances had not been received though they have been requested.	Letters Confirmation Balances should be made available to Audit.
(b) Trade and other Balances payable	36,823,993	Letters Confirmation Balances	of	Letters Confirmation Balances had not been received though they have been requested.	Letters Confirmation Balances should be made available to Audit.

1.6 Accounts Receivable and Payable

1.6.1 Amounts Receivable

Audit Observation	Comments of the Management	Recommendation
It was observed that out of the trade and other receivable balance totalling Rs.72,999,219 as at 31 December 2018, a total sum of Rs.67,445,878 had remained outstanding over a period of 03 years. Action had not been taken as at the end of the year under to recover these outstanding loan balances.	I accept it. Action will be taken by considering the uncertainty of recovery of money and checking values available.	Prompt action should be taken to recover money receivable.

1.6.2 Amounts Payable

Audit Observation	Comments of the Management	Recommendation
Out of the trade and other payable balances totalling Rs.36,823,993 as at the end of the year under review, a total sum of Rs. 28,471,059 had not been settled over a period of 03 years.	Future action will be taken by checking this trade and other payable balances.	Action should be taken to settle the balances payable on priority basis by studying payable balances and obtaining instructions from the Board of Directors.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Observation	Comments of the Management	Recommendation
A sum of Rs.1,000,000 had been paid on 06 July 2018 through the payment voucher No.316 by the Cement Corporation to the Lanka Cement PLC. This money not allocated by the Corporation Budget – 2018 of the Corporation had been spent for settling administrative expenses of the Company without entering into any written agreement with the Company. However, the said money could not recovered even by March 2019 due to cessation of business activities of the Company.	I accept it. These moneys have been granted on the basis of recovery of this money from moneys received by selling scrap iron of the Cement Corporation.	Action should be taken in terms of instructions of the Audit and Management Committee for avoiding further grant of money to the Company and to recover granted money.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 135	Delegation of powers for financial control had not been done in writing.	of Functions had been delegated among employees of Corporation.	Action should be taken in terms of the Financial Regulation.

(b) Financial Regulation 751	An inventory book had not been maintained.	I accept it. Action will be taken to maintain it in future.	Action should be taken in terms of the Financial Regulation.
(c) Financial Regulation 757(4)	A Board of Survey on assets belonging to the Corporation should be conducted immediately after the financial year and reports thereon, presented to the Auditor General. However, action had not been taken accordingly.	The report of the Board of Survey of the year 2018 had been presented to the Board of Directors and subsequently to Audit.	Action should be taken in terms of the Financial Regulation.

2. Financial Review

2.1 Financial Results

The operations for the year under review had been a profit of Rs.15,958,430 as compared with the corresponding profit of Rs.15,298,106 in the preceding year, thus indicating an improvement of Rs.660,324 in the financial result. The increase in the gross profit by Rs.2,494,558 and in relation to that, decrease in the administrative expenditure by Rs.3,640,711 and decrease in the financial cost by Rs.1,848,301 had been the main reason for the above improvement.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

Even though 62.45 per cent ownership of the shares of the Lanka Cement PLC which was initiated in the year 1981, is owned by the Corporation, no benefits whatsoever for that investment had been received by the Corporation during the past 27 years.

Comments of the Management Recommendation

I accept it.

The Department of Public Enterprises should obtain instructions from the Treasury for selling shares of the Company, owned by the Corporation at the share market and earn an income on behalf of the Government

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Two oil storage tanks located at Kankesanthurai, owned by the Corporation had been handed over for the use of a state company since the year 2010 without charging fees and entering into a written agreement. The Management of the Corporation had not taken action to hand over these oil storage tanks according to a written agreement and to recover fees therefor.	It has been informed that action will be taken to pay fees by obtaining the approval immediately after appointment of the Board of Directors of the company by which oil storage tanks are used.	The Management should take action to recover money recoverable to the Corporation.
(b) The loan interest account totaling Rs.10,065,512 had been debited by using 02 journal entries and other income account had been credited as write-off loan interest payable. The accuracy of computation of these loan interests payable had not been confirmed to Audit and the written permission for write-off the said loan interest had not been obtained by the bank.	The write-off of this bank loans based on the bank loan interest included in the Budget had been recorded in the financial statements.	The write-off of loan interests should be brought to account after obtaining written approval by the bank.
(c) Even though the Board of Directors had decided on 22 June 2018 to appoint a Ministry Procurement Committee and a Technical Evaluation Committee for selling scrap iron which were kept on the premises of the Cement Factory at Kankesanthurai, owned by the Corporation, the said purpose had not been performed up to 31 December 2018.	Instructions from the Lime Ministry had been sought and according to the procurement process, reports are being prepared for selling of this iron.	It is appropriate to take action according to decisions of the Board of Directors.

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| <p>(d) The Aruwakkalu Limestone deposit of 5,352 acres in extent located at Puttalam District, owned by the Corporation had been leased out to the Holcim Lanka Ltd under a lease agreement with the same lease rent, for a period of 50 years. Even though over a period of 06 years had elapsed after giving instructions to revise the said lease agreement at the Committee on Public Enterprises held on 16 August 2011, the management had not taken action to revise the said agreement.</p> | <p>It should be entered into an agreement with the relevant company thereon and discussions are held since the year 2013.</p> | <p>Action should be taken according to instructions given for revising the said lease agreement at the meeting of the Committee on Public Enterprises.</p> |
| <p>(e) Action had not been taken up to 31 December 2018 to pay and settle the invoice No.036980 valued at Rs.335,249 issued on 31 December 1992 relating to the year of accounts of 1990 by the Auditor General's Department.</p> | <p>Provisions for audit fees payable for the year 1990 had not been made. Moreover, as audit fees relating to preceding years had been paid in the said year, it should have been confirmed for accounting the payment.</p> | <p>Action should be taken to pay outstanding audit fees by checking this payable audit fees and making necessary rectification of accounts.</p> |

3.3 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the manufacturing and selling of cement and manufacturing of cement related products are the main objectives of the Corporation, the manufacturing of cement at Kankesanthurai had been discontinued after the war remained during past years. Moreover, importation and selling of cement bags had been carried out during past period and it had been ceased after 30 September 2018.</p>	<p>After VRS, the importation of cement had been discontinued due to dearth of trained employees according to instructions of the Department of Public Enterprises</p>	<p>Action should be taken with the consultation of Cabinet of Ministers and the Department of Public Enterprises.</p>

- (b) Even though the Corporation had expected to earn an income of Rs.2,480,000 by manufacturing and selling of cement posts in the year 2018, the actual sales income during the year had been Rs.579,569. Accordingly, the progress of selling of cement related products stood at 23.4 per cent and the manufacturing of cement related products as well had been completely ceased by the end of the year 2018.
- After implementation of VRS, manufacturing of concrete and related products had been ceased according to instructions of the Department of Public Enterprises.
- Action should be taken with the consultation of Cabinet of Ministers and the Department of Public Enterprises.

3.4 Idle or Underutilized property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>The land of 89.9 perches in extent located at Colpetty had been vested with the Corporation through the Gazette Extraordinary Notification No.14756/7 of 12 July 1967 and by the Deed No.288. According to the valuation report of the year 2017, this land to the value of Rs.735,000,000 by the year under review had been mortgaged to a State bank and the outstanding loan balance as at the end of the year under review had been Rs.97,700,000. Moreover, this land located close to Galle Road had remained as an idle asset without being made use of for an effective purpose.</p>	<p>This land has been leased out for 07 institutions for parking their motor vehicles since the year 2014 with the approval of the Board of Directors.</p>	<p>Action should be taken to increase the income earned by investing assets of the Corporation effectively and to settle money obtained from the Treasury for VRS, in terms of instructions.</p>

3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
The land at Aruwakkalu owned by the Corporation had been handed over to a private company for carrying out a technical study without following the procurement process in terms of the National Procurement Guidelines No.08 of 25 January 2006. A written agreement had not been entered into between the Corporation and the private company regarding this technical study and a value of US\$ 20,000 representing Rs.3,596,580 had been received to the Corporation for the year 2018.	I accept it. Future action will be taken in this connection.	In terms of the reply, action should be taken in compliance with the Procurement Guidelines and new revisions made relating thereto.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
After the employees of the Corporation had been retired by implementing a Voluntary Retirement Compensation Scheme in July 2016, no officer had been deployed in service for the internal audit of the Corporation during the year under review and no functions whatsoever relating to the internal audit of the Corporation had been performed during the year.	It has been requested from the Ministry to attach an eligible officer therefor.	Action should be taken to carry out an internal audit regarding transactions made during the year of account of the Corporation.

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
Expenditure had been incurred exceeding the budget estimate totalling Rs.839,221 relating to 07 Objects as at 31 December of the year under review and variances ranging from 31 per cent to 271 per cent were observed between the budgeted and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.	The approval of the Board of Directors has been obtained for actual expenditure incurred exceeding the budget.	Even though the approval had been subsequently obtained, the financial management had not been carried out according to the budget estimate and it should be attempted to take action within budget targets.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
(a) The Corporation had not been properly aware of the 2030 “Agenda” for Sustainable Development and as such, action had not been taken to identify sustainable development goals, targets relating to its functions and indices for measuring the achievement of those targets.	It has been accepted.	The Corporation should take action according to sustainable development goals.
(b) Functions which had been identified by the Corporation for reaching the sustainable development targets had not been included in the Annual Plan and financial provisions required for performing those functions had not been included in the annual budget.	It has been accepted.	The Corporation should take action according to sustainable development goals.