

Ceylon Ceramics Corporation - 2018

1.1 Adverse Opinion

The audit of the financial statements of the Ceylon Ceramics 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, because of the significance of the matters described in the basis for adverse opinion of my report, the financial statements do not 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 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the financial statements do not give a true and fair view of the financial position.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards, is 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 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 intends 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 audit 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, 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

The Corporation is 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. 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 Reference to the Relevant Standard	Comments of Management	the Recommendation
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(a) Sri Lanka Accounting Standard 1

(i) In terms of paragraph 38 of Sri Lanka Accounting Standard 1 on the presentation of financial statements,	It will be corrected since the ensuing year.	Action should be taken in terms of Accounting
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the comparative information in respect of the preceding period should be presented. However, in the preparation of cash flow statement, the comparative information of the year 2017 had not been presented as at 31 December 2018.

Standard.

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| <p>(ii) In terms of paragraph 110 of Sri Lanka Accounting Standard 1 on the presentation of financial statements, in making retrospective adjustments according to Sri Lanka Accounting Standard 8, the changes in accounting policies and the result from corrections of errors had not been separately disclosed in the statement of changes in equity and instead, a total sum of Rs.559,463 had been disclosed in the statement of changes in equity as adjustments of preceding years as at 31 December 2018.</p> | <p>It will be corrected from the ensuing year.</p> | <p>Action should be taken in terms of Accounting Standard.</p> |
| <p>(b) Sri Lanka Accounting Standard 2
In terms of paragraph 34 of Sri Lanka Accounting Standard 2 on inventories, the loss of Rs.462,518 written off to the income statement by recognizing inventories, had not been disclosed in financial statements in terms of paragraph 36 (f) of the Standard.</p> | <p>Future action will be taken according to instructions given.</p> | <p>Action should be taken in terms of Accounting Standard.</p> |
| <p>(c) Sri Lanka Accounting Standard 16
Contrary to paragraph 19 (d) of Sri Lanka Accounting Standard 16 on property, plant and equipment, the overhead costs totalling Rs.108,854 including raw materials purchased for the repair of the Kiln of the Eragama Factory, had been brought to account as fixed assets.</p> | <p>Action will be taken to correct in the future.</p> | <p>Action should be taken in terms of Accounting Standard.</p> |

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the balance of Value Added Tax payable as at 31 December 2018 according to the report on arrears of taxes of the Department of Inland Revenue, had been Rs.53,863,568, the value of Value Added Taxes payable had been indicated as Rs.53,744,967 in the financial statements, thus understating the balance of the Value Added Tax Account payable, by Rs.118,601.	This will be corrected in the future by holding discussions with the Department of Inland Revenue.	It is appropriate to take action in terms of the reply.
(b) Even though the balance of the Economic Service Charge (ESC) payable as at 31 December 2018 according to the report on arrears of taxes of the Department of Inland Revenue, had been Rs.12,904,494, according to the financial statements, the value of those taxes payable had been indicated as Rs.11,002,254, thus understating the value of ESC payable in the financial statements by Rs.1,902,240.	This will be corrected in the future by holding discussions with the Department of Inland Revenue.	It is appropriate to take action in terms of the reply.
(c) Even though the balance of arrears of revenue payable as at 31 December 2018 by the Corporation according to the report on arrears of taxes of the Department of Inland Revenue, had been Rs.16,276,328, the value of income tax payable had not been indicated in the financial statements.	This will be corrected in the future by holding discussions with the Department of Inland Revenue.	It is appropriate to take action in terms of the reply.
(d) Expenditure on hire of motor vehicles totalling Rs.300,000 relating to months of November and December 2017, had been brought to account as expenditure on hire of motor vehicles of the year 2018, thus overstating the expenditure on hire of motor vehicles of the year under review by the same amount.	The said expenditure relating to months of November and December of the year 2017, has been brought to account as expenses of the year 2018.	Expenditure of the year should be brought to account by recognizing as expenditure incurred within the said year.
(e) Even though the total value of 04 types of stocks had been Rs.11,441,948 according to the financial statements as at 31 December 2018, the value of those items of stocks according to the reports on	It will be corrected in the future by examining thereon.	It is appropriate to take action according to the reply.

physical verification, dated 12 February 2019, had been Rs.9,954,930, thus overstating the stock in the financial statements by Rs.1,487,018.

- (f) A surcharge of Rs.14,289,605 had been imposed by the Employees' Provident Fund due to delay in paying contributions to the Employees' Provident Fund from July 2010 to December 2011. The said surcharge had been indicated as Rs.7,896,291 in the financial statements as at 31 December 2018, thus understating the said surcharge payable in accounts by Rs.6,393,314.
- Audit opinion is accepted. Action will be taken to correct it in the future.
- It is appropriate to take action according to the reply.
- (g) Authority has not been delegated to the National Audit Office to issue invoices for audit fees in the years of accounts 2014, 2015 and 2017 and as such, invoices therefor could not be issued. Further, provisions for audit fees totalling Rs.592,432 payable for the said years, had not been made.
- Audit opinion is accepted. Action will be taken to correct it in the future.
- It is appropriate to take action according to the reply.

1.5.4 Un-reconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Comments of the Management	Recommendation
Cash in hand	150,199	88,275	61,924	Audit opinion is accepted. Action is taken to ensure the responsibility of avoiding such situation in the future.	It is appropriate to take action according to the reply.

1.5.5 Lack of Evidence for Audit

Item	Amount Rs.	Evidence not made available	Comments of the Management	Recommendation
(a) Lands and Buildings	23,755,784	Title deeds or other legal documents for confirming the ownership.	Action is being taken to vest lands of other factories except for Mahiyangana and Eragama Factories in terms of Section 44 (I)	Vesting of lands of Factories owned by the Corporation should be expedited.
(b) Income tax receivable	1,221,666	Documentary evidence for confirmation of balances of taxes	Action is taken to look into thereon.	Evidence should be made available to audit by looking into thereon.
(c) Total taxes payable	110,766,085	Tax files and documentary evidence	The file available with the Corporation has not been presented.	Documentary evidence for this value should be made available.
(d) Trade and other debtors	9,779,219	Documentary evidence adequate for confirmation of loan balances	These particulars have not been indicated in the financial statements.	According to the reply, this value has been indicated in the financial statements. Documentary evidence therefor should be made available to Audit.
(e) Other deposits	3,010,675	Documentary evidence for confirming the accuracy.	Action will be taken to correct these balances in the future.	It should be corrected according to the reply.
(f) Balances receivable from the Janatha Estates Development Board	5,000,000	Documentary evidence for confirmation of balances	Confirmation of balances has been summoned.	Adequate documentary evidence should be made available to Audit.

(g) Creditors balances	48,138,780	Adequate documentary evidence for confirming the creditors balance.	Action is taken to correct them in the future.	It is appropriate to take action in terms of the reply.
(h) Bank current - accounts of 05 factories	-	Bank reconciliation statements	Action is taken to prepare the said reports.	It is appropriate to take action in terms of the reply.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
<p>The outstanding loan balances as at the end of the year under review totalled Rs.52,753,241 comprising of balances totalling Rs.714,556 less than 01 year, Rs.1,276,046 from 01 year to 02 years, Rs.500,012 from 02 years to 03 years, and Rs. 50,262,627 older than 03 years and action had not been taken to settle those loan balances remained unrecovered for a long period.</p>	<p>Settlement of payments had been delayed due to financial difficulties of the Corporation.</p>	<p>Action should be taken to pay expenditure payable according to the reply.</p>

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 8(1) of the Finance Act, No.38 of 1971	A budget for the year under review had not been prepared.	These documents have not been prepared. Action will be to correct this in the future.	The annual budget should be prepared during the prior year and the approval should be obtained therefor.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.135	Functions pertaining to Financial Regulations had not been delegated in writing.	Adequate staff officers are not available with the Corporation for this function.	Action should be taken in terms of the Financial Regulation.

- (c) Public Finance
Circular
No.01/2014 of 17
February 2014
Section 5(1)
- A Corporate Plan had not been prepared in terms of the Circular.
- Action will be taken to correct in the future
- The Corporate Plan should be prepared in terms of the reply and action should be taken accordingly with the approval.
- (d) Public Finance
Circular
No.02/2015 of 10
July 2015
Section 02
- Even though 13 motor vehicles attached to 06 Factories belonging to the Corporation had not been used in terms of the Circular, action had not been taken to dispose of them.
- Approval of the Ministry has been sought for the disposal of motor vehicles.
- Action should be taken in terms of the reply.
- (e) Public Finance
Circular
No.03/2015 of 14
July 2015
- A total sum of Rs.446,000 had been granted to non-staff officers and employees on contract basis contrary to the circular.
- Advances have been granted to employees who had been recruited on daily paid basis for daily duties.
- It is appropriate to take action in terms of the Circular.
- (f) Public Enterprises
Circular No. PED
12 of 02 June 2003
(I) Sections 9.2 (b) and (d)
- In terms of this Section, the Organization Chart and the approved cadre should be registered with the Department of Public Enterprises. However, a cadre had not been approved after restructuring on 01 July 2010.
- Action is being taken to approve the cadre by holding discussions with the Ministry.
- Action should be taken in terms of this circular.

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| (III) Section 4.2.6 | The Performance Report, after quarterly reviews should be forwarded to the Department of Public Enterprises and the Treasury within 30 days after the end of the quarter. However, action had not been taken accordingly. | Action will be taken to attend to this matter and to correct it. | Action should be taken in terms of this circular. |
| (g) Management Services Circular No.03/2018 of 18 July 2018 Section II | Salaries and allowances totalling Rs.130,000 had been paid in the year under review by recruiting 02 employees in the year under review without obtaining prior approval of the Department of Management Services of the General Treasury. | Has been recruited on daily basis according to the powers of the competent authority. | Action should be taken in terms of this circular. |
| (h) Public Enterprises Circular No. PED 01/2018 of 18 September 2018 | Payments totalling Rs.1,800,000 had been obtained in the year under review for a motor vehicle on rental basis at the rate of Rs.150,000 per month for the use of the Competent Authority without taking action in terms of the Circular. | A motor vehicle had been provided to the Competent Authority on monthly payment basis until a new motor vehicle is purchased for him on the approval of the Ministry. | Action should be taken in terms of this circular. |

2. Financial Review

2.1 Financial Results

The operations of the Corporation of the year under review resulted in a loss of Rs.39,051,649 as against the profit of Rs.37,077,618 for the preceding year. Accordingly, a decline of Rs.76,129,267 was observed in the financial result. The decrease in net sales by Rs.53,983,079 and other income by Rs.4,230,894 had been the main reason therefor.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The number of annual production units of the Corporation had gradually increased from 2,162,836 units to 4,368,412 units from the year 2014 to the year 2017. However, the number of production units had stood at 1,642,804 in the year 2018 due to decrease in the sale of roofing tiles with the lifting of the ban on Asbestos. As such, the number of production units had decreased by 2,725,608 representing 62 per cent as compared with the year 2017.</p>	<p>As the demand for roofing tiles has decreased, the sale of factories had decreased and as such, the said products had amassed. Accordingly, production activities had been temporarily discontinued from 25 January 2018. It had resulted in the decrease of the total production.</p>	<p>In terms of instructions given as state policy decisions, prompt action should be taken to lease out factories. It is advisable to obtain Treasury instructions.</p>
<p>(b) Five factories had been used for production activities until January 2018. Nevertheless, the 04 other factories except for the Eragama Factory, had temporarily discontinued production from 25 January 2018 due to issues on the sale of roofing tiles. In the comparison of the number of production units in the year 2018 with that of the year 2017, the production capacity of the Eragama Factory, Mahiyangana Factory, Yatiyana Factory, Bingiriya Factory and Uswewa Factory had decreased by 18 per cent, 90 per cent, 92 per cent, 94 per cent and 96 per cent respectively in the year under review.</p>	<p>This situation has arisen due to issues in the sale of roofing tiles and lifting the ban on Asbestos. The Corporation has discontinued production in the year 2018 due to issues in the sale of roofing tiles.</p>	<p>Action should be taken in accordance with the policies and decisions of the present Government with direct intervention of the Ministry.</p>

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| <p>(c) In the comparison of income from sales of the year under review with those of the preceding year, the sales of the Eragama Factory, Bingiriya Factory, Mahiyangana Factory, Yatiyana Factory and Uswewa Factory had decreased by 28 per cent, 51 per cent, 69 per cent, 68 per cent and 72 per cent respectively.</p> | <p>This has occurred due to the lift on the ban of Asbestos and issues of production and sales.</p> | <p>Action should be taken to sell produced roofing tiles before being damaged.</p> |
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3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>(a) Four out of 09 factories owned by the Corporation as at 31 December 2018 had been closed down due to matters such as lack of raw material, North and East war and removal of employees on restructuring. The production activities of those factories had been discontinued during a period from 04 to 26 years. Property, plant and equipment totalling Rs.17,517,840 belonging to those 04 factories and the land of 88 acres and 2 roods in extent had remained idle without being utilized for an effective purpose.</p>	<p>It has been decided to consider suitable projects for these factories and to take action according to the Cabinet Decision.</p>	<p>Action should be taken to safeguard assets and to invest productively.</p>
<p>(b) The Chairman and the Board of Directors have been removed and a Competent Authority has been appointed on 01 July 2010 according to a Cabinet Decision taken with the main objective of leasing out the factories owned by the Corporation on long term to a private investor. Even though 03 competent authorities have been appointed timely by the year under review, none of the factories could be leased out even by 31 July 2019.</p>	<p>Action will be taken to lease out these factories in future.</p>	<p>According to the reply, action has not been taken up to the date of this report. Prompt action should be taken to lease out the factories.</p>

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| (c) The paddy land of 50 acres in extent belonging to the Eragama Tile Factory which operates under the Corporation had remained idle during the period from 15 March 2018 to 31 December 2018, without being cultivated. | Action is being taken to lease out this land. | This paddy land should be utilized for an effective investing purpose. |
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3.3 Procurement Management

Audit Observation

A contractual agreement had been entered into on 29 August 2018 between the Corporation and the Department of Archaeology for supplying 245,572 engineering bricks for Rs.4,051,938 to the Department of Archeology during the year under review. However, only 57,157 bricks or 23 per cent of the total order had been supplied as at 31 December 2018. The remaining bricks had been supplied in the year 2019 without extending the validity period of the agreement or entering into a new agreement in terms of Guideline 8.9.3 of the Procurement Guidelines.

Comments of the Management

Action was taken to supply orders obtained in the previous year by holding discussions with that institution.

Recommendation

Action should be taken in terms of the Procurement Guidelines.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

An internal audit plan has been prepared only for the first 03 quarters of the year under review by the Internal Audit Unit of the Corporation and 10 areas has been planned to be covered by the said plan. Nevertheless, only 04 areas have been covered by the Internal Audit Unit and as such, the internal audit of the Corporation had been at a weak level.

Comments of the Management

Action will be taken according to instructions and plans in future.

Recommendation

An audit plan should be annually prepared and duly implemented.