

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the BCC Lanka Limited for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effect 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 Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section in this 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 determine 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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 and its materiality depends on the influence of economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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.
- Evaluate the 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.
- 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards.

Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
(a) In terms of Section 51 of Sri Lanka Accounting Standard 16 on Property, Plant and Equipment, the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes shall be accounted for in accordance with Sri Lanka Accounting Standard (LKAS) 8. Nevertheless, the useful life of fully depreciated Property, Plant and Equipment costing Rs.65,050,274 had not been so reviewed and accounted for even though they were still in use.	It is expected to appoint a committee through the Ministry and complete that task in the ensuing year.	Action should be taken to review useful life of the assets and make necessary adjustments in the accounts in terms of provisions of the standard.
(b)) Even though the deferred tax liabilities and deferred tax assets should be identified and brought to account in terms of Sections No.15 to 24 of Sri Lanka Accounting Standard (LKAS) 12, the Company had not adhered to the relevant standard.	As the tax records are prepared by an external institute, the above institute informed that they could not complete the activities of that tax account.	Action should be taken in accordance with the provisions of the standard.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
(a) The purchase advance balance as at 31 March 2021 was Rs. 2,503,673 and the Company had not taken action to recover 32 balances thereof totalling Rs. 1,420,474 older than 11 years.	Although the Board of Directors sought approval to write off these amounts, it was rejected due to lack of sufficient information. The audit and management committee informed that inquires be made in writing as to whether that institute is available at present.	Action should be taken to settle balances.
(b) The rent due from the warehouses given on rent amounted to Rs. 14,968,317 by the end of the year under review, of which balances of Rs. 2,834,261 remained outstanding for more than 10 years. The Company had not taken adequate measures to recover these outstanding balances.	The audit and management committee informed to apprise those institutions in writing and to recover these amounts.	Action should be taken to settle balances.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
(a) For the loan amounting to Rs. 58,265,037 obtained from the Coconut Development Authority during the years 1985, 2002 and 2004 and Rs. 10,000,000 obtained from the Kalubovitiyana Tea Factory Ltd. in the year 2003, interests of Rs. 53,153,819 and Rs. 48,382,429 remained payable respectively by the year under review. Although allocations at Rs. 6,747,521 had been annually made for the payable interest, Company had not taken steps to settle the remaining loan amount and interest of Rs. 169,801,285.	It has been decided to settle these loans from the money received for the lands transferred to the Ministry of Justice.	Action should be taken to settle the loans and interests.

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| (b) | Although Rs. 4,508,696 has been shown as a balance payable to the Janatha Estate Development Board, such balance was not shown as per the accounts of the Janatha Estate Development Board. Hence, the accuracy of this balance could not be established in audit. | It was decided at the audit committee meeting held on 22.12.2021 to write off the relevant balance after obtaining a confirmation from the Janatha Estate Development Board about non-availability of such balance. | Action should be taken to settle balances or credit them to the Revenue. |
| (c) | The Company had not taken steps to settle the assessment tax, turnover tax, security tax, goods and services tax and Value Added Tax balances totalling Rs. 58,296,534 that remained payable for more than 14 years and the creditors balance totalling Rs.12,976,524 that remained in existence for more than 10 years. | The turnover tax, security tax, Value Added Tax and all services taxes payable to the Inland Revenue Department will be settled by the compensation received for the lands transferred to the Ministry of Justice and the assessment tax that remained payable to the Colombo Municipal Council has been paid to the Ministry of Justice. | Action should be taken to settle the balances that remained unsettled over a long period. |
| (d) | No action had been taken either to release deposit of Rs. 1,949,142 that had continued to exist for more than 15 years as down payment deposits obtained in leasing buildings or credit it to the revenue of the company following confirmation that the relevant deposits would not be claimed. | As the relevant amounts are in existence from the period before 1994, details thereon cannot be ascertained. | If the deposits are not claimed, action should be taken to credit it to the revenue. |

2. Financial Review

2.1 Financial Results

The operations of the company for the year under review had resulted in a profit of Rs. 43,600,867 as compared with the corresponding profit of Rs. 30,658,289 for the preceding year. Accordingly, an improvement of Rs. 12,942,578 in the financial results was observed. This improvement was mainly due to increase in the coconut oil sale income.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

The company buys coconut oil from the suppliers and stores in several small tanks then the oil is subjected to the straining process and bottled as the white coconut oil. Only the Cooks Joy oil is subjected to a refinery process. In the year under review, 311.50 metric tons of white coconut oil and Cooks Joy oil so produced and its income was Rs. 193,856,378. The company buys coconut oil only from several limited number of suppliers and bottles at present. Nonetheless, the company's attention had not been focussed on the implementation of a broadened process continued from the production of coconut oil, the initial stage, up to the sale.

Comment of the Management

A coconut mill cannot be established in the remaining 06 acres land of the BCC. According to the plan of the Urban Development Authority, instructions have been given to remove the refinery section from this land. As it is not possible to maintain the available refinery section on this land over a long period, plans were made to establish coconut oil manufactory and a refinery section on other premises.

Recommendation

Action should be taken to gain maximum benefits and to increase income.

3.2 Operating Inefficiencies

Audit Observation

- (a) The land containing 12 Acres 3 Roods and 8.77 Perches owned by the company had been assessed at Rs. 8,195 million in the year 2013. By the Cabinet decision Nos. 15/1874/702/010-VII dated 17 December 2015 and No. 16/0597/731/009-I dated 20 April 2016, six acres of this land had been given to the Ministry of Justice to construct Colombo Court Complex. Nevertheless, transfer of lands and obtaining compensation had not so far been completed in accordance with the Government land acquisition process.

Comment of the Management

Having transferred the 06 acres land for the construction of Colombo Court Complex by the Divisional Secretary as per the land acquisition process and presented for the title inspection, necessary arrangements have already been made to obtain the valuation report. Necessary measures are being taken to expedite the further activities relating to obtaining compensation.

Recommendation

Action should be taken to expeditiously complete the activities relating to obtaining compensation.

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| (b) | <p>There are 32 stores comprising 118,345 square feet and 03 tanks with the capacity of 3,500 metric tons of oil on this land which was valued at Rs. 8,195 million in the year 2013. These stores had been rented out at Rs.50 to Rs.70 per square feet and the General Stores on the First floor with 5,140 square feet had been rented at Rs.30 per square feet. As these stores of high commercial value located in this company premises had not been properly renovated, those had to be rented at lower rates. Similarly, the 03 oil tanks with the capacity of 3,500 metric tons and worth Rs. 21,074,765 remained unfilled over a number of years and 02 of those tanks had been rented out in March and June 2021.</p> | <p>Although action was taken to rent the tanks by publishing newspaper advertisements on several occasions, any institute did not respond thereto and subsequent to exceeding the capacity of tanks belonging to the importers due to massive importation of coconut oil from foreign countries, the tanks of the company were obtained on rent.</p> | <p>Action should be taken to increase income.</p> |
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3.3 Idle or Underutilized Property, Plant and Equipment.

	Audit Observation	Comment of the Management	Recommendation
(a)	<p>Although stocks should be reordered when the main stock item reached at the reorder level in the BCC soap manufactory situated in Wathupitiwala, the company had not acted accordingly and therefore, soap production had not been continuously carried out throughout the year 2020/2021. Further, production had not taken place in keeping with the maximum capacity of the machines of the institute.</p> <p>As soap production is carried out by purchasing the Soap Noodles required for the soap production locally and internationally, due to the limitation of imports and increase in the price of foreign Soap Noodles, a stock of Sovereign Bar had been purchased by the procurement committee held on 18 March 2021 from external parties. Only the packing of soap purchased from an external parties under the brand name of the company and the sale of such soap are carried out and the soap production machines of the company had remained defunct from March 2021.</p>	<p>The shortage of Soap Noodles has contributed to decrease in the soap production in the years 2020/2021 and 2021/2022.</p> <p>We took steps to purchase, pack and sale sovereign bar 650g and snow white in the year 2021 and we expect to resume soap production by purchasing imported raw materials again after resolving the foreign exchange issue. The purchase of soap from outsiders is a temporary measure.</p>	<p>Action should be taken to start the production of quality soaps.</p>

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| (b) | Although the soap production plant located at the BCC head office had been established in the BOI premises at Wathupitiwala in 2012, it remained idle without being used for the date of its installation up to the date of audit. | Only one test running had been carried out subsequent to the installation of that plant and the Soap Noodles could not be obtained at the required standard as the machines were old. Since the unit cost was high, that machine was not used for Soap Noodles production. | A suitable step should be taken in respect of unusable machines. |
| (c) | As 04 vehicles received from the Ministry of State Entries Development and owned by the company remained unroadworthy over a period from 01 to 03 years, those had been parked at the vehicle yard of the company and the company had not taken suitable action to hand over those vehicles to that Ministry or to dispose of. | It was decided to hand over 02 roadworthy vehicles to the Ministry and to repair the other vehicle to usable condition. | Appropriate measures should be taken on the unusable vehicles. |

3.4 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>In restructuring the company in the year 2006, although salaries had been paid after placing the officers in each salary step in terms of Department of Management Services Circular No.30, the relevant scheme of recruitment has not been approved by the Department of Management Services up to date. Forty four permanent officers and 05 officers on contract basis were employed in the company as at 31 March 2021 and a sum of Rs.29,097,372 had been paid as employees' salaries and wages, while a sum of Rs.3,546,775 had been paid after attaching a number of employees between 25 to 35 by the manpower supply.</p>	<p>Action has been taken to prepare the cadre and the scheme of recruitment in this year and forward it, with the approval of the Cabinet of Ministers, to Department of Management Services for approval.</p>	<p>Action should be taken to prepare a scheme of recruitment and obtain approval of the Department of Management Services.</p>