

Lanka Building Materials Corporation Limited –December 2020 from 01 January 2017

The audit of the operations of the Lanka Building Materials Corporation Limited for the period ended 31 December 2020 from 01 January 2017, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the National Audit Act No. 19 of 2018 read in conjunction with provisions of the Sri Lanka State Trading Corporations Act No. 33 of 1970 and the Companies Act No.07 of 2007. The financial statements for the years 2017,2018,2019,2020 and 2021 to be submitted in terms of Section 150 (1) of the Companies Act No.07 of 2007 had not been submitted even by the date of this report. My observations on the operations of the Company which are required to be presented to Parliament in terms of Section 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.1 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 Financial Reporting Standards for Small and Medium Enterprises (SLFRS for SMEs) 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.

1.1.1 Financial Statements

1.1.2 Non-presentation of Financial Statements

Audit Observation

Although the annual financial statements and draft annual reports should be submitted to the Auditor General within 60 days after the expiration of the financial year as per Section 6.5.1 of the Public Enterprise Circular No. PED / 12 dated 02 June 2003, the Lanka Building Materials Corporation Limited had not submitted its financial statements for the years 2017, 2018, 2019 and 2020.

Furthermore, after the computer server used by the Corporation became inoperable, the new server purchased in July 2019 for Rs. 282,000 had been installed on 30th January 2021, accounts reports for the financial years 2017 to 2020 had not been prepared stating that the information required to prepare the accounts was destroyed due to not taking backups when the server became inoperable.

Comment of the Management

Reports have not so far been presented.

Recommendation

Action should be taken in accordance with the circular.

1.2 Accounts Receivable and Payable

1.2.1 Payables

Audit Observation	Comment of the Management	Recommendation
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<p>(a) In order to assist the Building Materials Corporation to become a strong partner in the rapidly growing construction industry overcoming the current financial difficulties, the Bank of Ceylon had granted a loan of Rs. 500 million to the Corporation on 28 September 2018 with a Cabinet approval on 28 March 2018 on a Treasury guarantee. Out of this, a sum of Rs. 105,977,098 or 21 per cent of the of the remaining amount of Rs. 301,377,920 granted after the deduction of Rs. 199,052,329 to be recovered to the bank had been spent contrary to the objective of the receipt of the loan.</p> <p>The Corporation had failed to repay this loan and the outstanding interest payment as at 31 December 2021 was Rs.102,408,382.</p>	Not commented.	The terms of the loan should be complied with.
<p>(b) Due to failure to duly pay the contributions to the Employees Provident Fund from January 2004 to December 2013, a surcharge of Rs. 3,982,512 had to be paid on court orders and due to non-payment of gratuity on the due date on 16 June 2006, a surcharge of Rs. 79,191 had to be paid.</p>	Not commented.	Action should be taken to duly pay the contributions to the Employees Provident Fund.
<p>(c) Payments to be made on court orders</p> <p>-----</p> <p>Out of Rs. 24,026,959 to be paid by the Corporation on court orders to two parties, a sum of Rs. 10,626,959 further remained payable.</p>	Not commented.	Action was taken in accordance with the court orders and it is expected to settle money to the suppliers before taking legal action.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Public Enterprises Circular No. PED 12 dated 02nd June 2003			
(i) Section 4.2.6	Although quarterly, half-yearly and annual performance reports should be submitted to the Line Ministry and the Treasury prior to 30 days after the end of the quarter, no reports for the period under review had been submitted.	Not commented.	Action should be taken in accordance with the circular.
(ii) Section 4.3	Although the decisions of the Board of Directors should be submitted to the Line Ministry within 10 days, no action had been taken to submit the relevant decisions for the year 2020.	Not commented.	Action should be taken in accordance with the circular.
(iii) Section 7.4.1	Although an Audit and Management Committee meeting should be held at least every three months, no Audit and Management meeting had been held from 01 January 2017 to 31 December 2020.	Not commented.	Action should be taken in accordance with the circular.
(iv) Section 8.2.2	Although the concurrence of the Minister of Finance should be obtained before investing money in fixed deposits, no such concurrence had been obtained regarding the fixed deposits of Rs. 24 million deposited in 2015 and 2016 and the Rs. 120 million invested in 2019.	Not commented.	Action should be taken in accordance with the circular.

(v) Section 8.3.3 (a)	In order to be eligible for payment of bonuses, the financial statements of the previous year should be submitted to the Auditor General within 60 days from the end of that year. Nevertheless, despite the non-submission of the financial statements for the years 2017, 2018, 2019 and 2020 till the date of the report, a sum of Rs. 1,550,264 had been paid as bonuses for the years 2017, 2018 and 2019.	Not commented.	Action should be taken in accordance with the circular.
(vi) Section 9.2 (b)	The Corporation lacked an approved staff.	Not commented.	Action should be taken in accordance with the circular.
(vii) 9.3.1 (i) (vi) (vii)	The Corporation lacked a scheme of recruitment prepared with the proper approval to be obtained. Permission should not be given to cover the duties of the posts and in case such permission was given for unavoidable reason, it should not exceed 03 months. Nevertheless, an executive-level post had been held under duty cover for more than a year.	Not commented.	Action should be taken in accordance with the circular.
(b) Paragraphs 3.2.6 and 3.2.7 of the Public Finance Circular No. 05/2016 dated 31st March 2016	Although the board of survey reports for each year should be submitted to the Auditor General before June 30 of the following year and it should be notified to the Director of Public Finance prior to June 30, board of survey reports for the years 2017, 2018 , 2019 and 2020 had not been submitted for audit even up to the date of audit.	Not commented.	Action should be taken in accordance with the circular.

(c)	Asset Management Circular No. 01/2017 of the Secretary to the Treasury No. MF / CG / 02 / (Cir) issued on 28th June 2017	The Corporation had not provide information on office equipment and furniture.	Not commented.	Action should be taken in accordance with the circular.
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2. Operating Review

2.1 Performance

Audit Observation

However, it was observed that at present the renovated showroom of the head office premises and branch offices are engaged in the sale of building materials and equipment purchased from material equipment suppliers at a profit margin and accordingly, the objectives and the mission of the establishment of the corporation and the establishment were not covered. Similarly, the net loss also increased from Rs. 15 million to Rs. 94 million during the four years from 2013 to 2016, in which the financial statements were submitted.

Comment of the Management

Not commented.

Recommendation

Action should be taken to minimize losses by focusing attention on the objectives and vision of the Corporation.

2.2 Contingent Liabilities

Audit Observation

Thirteen cases were pending in the courts against the Lanka Building Materials Corporation Limited by the year 2020.

Comment of the Management

Not commented.

Recommendation

The Corporation should take steps in a manner that does not lead to legal action.

2.3 Assets Management

Audit Observation

(a) The Corporation had obtained Rs. 222.50 million through deed of sale for 03 plots of lands containing 04 Rood and 31.4 Perches situated at Sangaraja Mawatha, Colombo 10. Although it has been decided by a judgment of the Colombo District Court to release the ownership of the lands by paying Rs. 359.32 million to the Housing Development Finance Corporation (HDFC) before 31 January 2012, the Corporation had not so paid

Comment of the Management

Not commented.

Recommendation

The relevant amount should be settled and action should be taken to properly acquire the land.

the amount and it was accordingly observed that Housing Development Finance Corporation was in the process of obtaining the freehold possession of the land.

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| (b) | Out of the land owned by the Corporation at Sri Sangharaja Mawatha, Colombo 10, a plot of 100 perches had been transferred to the Bank of Ceylon by a deed of transfer for Rs. 70 million. Although this land should have been taken over again by paying the relevant stamp duty of Rs. 5,383,174 for the deed prepared by offsetting the sum of Rs. 199,052,329 against the loan of Rs.500 million obtained by the Corporation on 23October 2018 from the Bank of Ceylon together with the loan overdraft and the payable interest, no action had been taken thereon even by 01 November 2021. | Not Commented. | Action should be taken to take over the land properly after paying the relevant stamp duty. |
| (c) | A land containing 01 Rood and 2.8 Perches at No. 417 / A, Kade Street East, Railway Station Road, Matara is being used unlawfully by the National Housing Development Authority and the Corporation had not taken any action in this regard. | Not commented. | The Corporation should take measures regarding the safety of the assets. |
| (d) | It was observed that deeds have not so far been obtained for lands of 05 Acres and 02 Rood and 12 perches and 5 houses under the Corporation. | Not commented. | The Corporation should take steps to obtain deeds. |
| (e) | There were no survey plans for the lands containing 02 Acres, 03 Roods and 14.5 Perches. | Not commented. | Action should be taken to prepare survey plan. |
| (f) | Although approval has been granted by the Cabinet Decision No. අමප/19/2192/122/076 dated 21 August 2019 relating to the transfer of the land at No. 549 / A, Borupana, Moratuwa, to transfer the ownership of the land to the Building Materials Corporation, The Corporation had not so far taken action to write the deed relating to the ownership of the land. | Not commented. | The Corporation should take steps to get the deed written. |
| (g) | It was observed that the land with 01 Rood and 31.6 Perches at No. 325 Sri Ponnambalam Road, Jaffna, Pandugama Anuradhapura houses, Nuwara Eliya Bambarakele building, Embilipitiya Yodhagama 02 houses owned by the Corporation were not being used. | Not commented. | Action should be taken to protect and utilize the land. |
| (h) | Although warehouses Nos. 1,2,3,4,5,6 and 7 in the premises of the Corporation located at 541 Sri | Not commented. | Assets should be assessed and |

	<p>Sangharaja Mawatha have been rented out for the services of the National Lotteries Board, the warehouses had been so rented out in 2020 at the same prices as in 2015, 2016 and 2017 without renewal of the agreement. Further, the National Lotteries Board had not paid the electricity bills of Rs. 60,382 due for these warehouses from July 2018 to January 2021.</p>		warehouses should be rented accordingly.
(i)	A building owned by the Corporation had been given to the Lanka Sathosa outlet in Matara and that building remained idle since July 2019.	Not commented.	Assets should be fully utilized.
(j)	An area of 500-square-foot in the showroom at Sangharaja Mawatha had been leased to a private institute and it had left the showroom on 23 January 2020. The company had not paid the rent of Rs. 192,500 and electricity bills of Rs. 4,196 .	Not commented.	Assets should be fully utilized. Further, arrears had to be recovered.
(k)	A warehouse consisting of 1480 square feet owned by the Corporation at No. 541 Sri Sangharaja Mawatha had been given to a private party for Rs. 66,600 per month at the rate of Rs.45 per square foot in April 2015. The contract period was until 09 April 2017 and the same rent had been paid up to now under the original agreement without entering into a new agreement.	Not commented.	Assets should be assessed and warehouses should be rented in accordance therewith.
(l)	The building at Maligawa Road, Ratmalana, which had been given to the National Youth Corps for Rs. 164,850 per month, remained idle since October 2019.	Not commented.	Assets should be fully utilized.
	Accordingly, in the face of these financial crisis, the Corporation had not drawn attention on increasing its revenue from the rent of these buildings.		
(m)	The lorry bearing No. 227-3173 had been taken out of service since 2014 and it remained dilapidated parking in the premises.	Not commented.	Action should be taken either to utilize or dispose of these vehicles
(n)	The Corporation had 14 vehicles as at 31 December 2020 and 07 of these vehicles were not in running condition.	Not commented.	Action should be taken to bring the vehicles into running condition.

2.4 Bank Accounts

Audit Observation

Comment of the Management

Recommendation

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| (a) The Corporation maintains 09 bank accounts and the credit balance of 05 bank accounts as at 31 December 2020 was Rs. 46,752,693 and the debit balance of 04 bank accounts was Rs.37,813,477. No bank reconciliation statements had been prepared for any bank account for the year 2020. | Not commented. | Action should be taken to prepare bank reconciliation statements monthly. |
| (b) In addition to the above 09 bank accounts, 2 bank accounts remained dormant from 2014 and 2015, whereas the Corporation had not taken action to close those accounts. | Not commented. | Action should be taken to close the dormant bank accounts. |
| (c) Overdrafts valued at Rs. 37,813,477 had been obtained from 04 bank accounts of People's Bank as at 31 December 2020. | Not commented. | Overdrafts should not be obtained from bank accounts. |

3. Accountability and Good Governance

3.1 Budgetary Control

Audit Observation

Comment of the Management

Recommendation

Although the budgeted financial statements should be submitted with the approved annual budget in accordance with Section 5.1 of the Public Enterprise Circular No. PED 12 dated 02 June 2003, action had not been taken accordingly.

Not commented.

Action should be taken in accordance with the circulars.

3.2 Corporate Plan

Audit Observation

Comment of the Management

Recommendation

In terms of Section 5.1 of the Public Enterprise Circular No. PED 12 dated 02 June 2003, although a Corporate Plan and Corresponding Action Plan for a period of not less than 03 years should be prepared to carry out the vision and mission of the Corporation and the approval of the Board of Directors should be obtained 15 days before the commencement of each financial year, it had not been so done.

Not commented.

Action should be taken in accordance with the circulars.