

1. Financial statements

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1.1 Qualified Opinion

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The audit of the financial statements of the Sri Lanka Cement Corporation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in 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 at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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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 (SLAuS). 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

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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 the Audit

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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 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 Audit Observations relating to the Preparation of Financial Statements.

### 1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a) Contrary to Section 32 of the Sri Lanka Accounting Standard 08, allocations for doubtful debts had not been made with respect to 20 loan balances totaling Rs. 31,324,469 and continued to exist over 3-10 years with an uncertainty of being settled. That value comprised 03 loan balances totaling Rs. 25,925,739 the debtors of which could not be identified.	Allocations for doubtful debts had not been made. Instructions have been given to make allocations for doubtful debts in due course as per the Accounting Standard.	Action should be taken in accordance with the Standard.
b) A revaluation is necessary on the changes in fair value of the Property, Plant and Equipment in terms of Section 34 of the Sri Lanka Accounting Standard, 16. However, 02 vehicles worth Rs. 4,463,964 still in running condition despite being fully depreciated, had been shown in the accounts on historical cost basis, but action had not been taken to account the vehicles to the fair value after being revalued.	As for 03 vehicles belonging to the Sri Lanka Cement Corporation, action is being taken to withdraw a non-roadworthy motorcycle from use. Action will be taken to account the other motorcycle and the Cab after being revalued.	Assets fully depreciated should be brought to accounts on fair value basis after being revalued.
c) Balances receivable from connected parties should be classified and shown in the	The other information and nature of the transactions relating to that balance	The Standard should be followed.

financial statements in terms of Sri Lanka Accounting Standard 24. However, the Corporation had made investments on shares representing 62.45 per cent of the total capital of the Sri Lanka Cement Company, and balances totaling Rs. 1,940,555 recoverable from that Company had been included in the trade debtor balance ( nature of the transactions relating to that balance along with the other information had not been disclosed)

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| d) | According to Section 05 of the Sri Lanka Accounting Standard 40, the land in Kollupitiya valued at Rs. 735,000,000 and yielding lease rents, should have separately been shown as investment properties in the financial statements, but the land had been shown under Property, Plant and Equipment. | As no investment project is in progress at the land in Kollupitiya having a high commercial value, the land is shown under Property, Plant and Equipment until an investment project is implemented. | As has been identified as an investment property, Action should be taken in accordance with the Standard. |
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#### 1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
a) According to the letters of confirmation of balances furnished by 03 debtors, it was stated that a balance of Rs. 381,966 remained receivable to the Corporation, but that sum had not been shown in the financial statements. Furthermore, it was stated in the financial statements that a balance of Rs. 2,831,142 remained receivable with respect to 02 debtors, such a balance did	Letters have been sent for obtaining confirmation of balances relating to all the debtor and creditor balances. Confirmation of balances relating to all those letters have not been sent to the Corporation.	Action should be taken to obtain confirmation of balances on all the loan balances.

not exist in accordance with the letters of confirmation of balances.

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| b) | The lease rent amounting to Rs. 16,680,000 receivable as at 31 December 2020 with respect to the 02 oil tanks located in Kankasanturai and the pipe system owned by the Corporation which had been given on lease to the Ceylon Petroleum Storage Terminals Limited, was understated in the financial statements.                                                                              | Action will be taken to show the value, receivable as at the last date of the relevant year, in the financial statements to be presented in due course. | Accurate values should be shown in the financial statements.                                      |
| c) | The Corporation had invested in 108,361,891 shares of the Lanka Cement Company to the total value of Rs. 1,083,618,910 at Rs. 10 per share. Accordingly, the Corporation owned 62.45 per cent of the share capital of the Lanka Cement Company-a subsidy company of the Corporation, but consolidated financial statements had not been prepared by the Corporation for the year under review. | Not replied.                                                                                                                                            | Consolidated financial statements should be prepared in accordance with the Accounting Standards. |

### 1.5.3 Unreconciled Control Accounts or Reports

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A difference of Rs. 6,118,336 was observed between the values shown in the financial statements and the corresponding reports relating to 02 items of accounts. Action had not been taken to identify and correct the differences.

### 1.6 Funds Payable

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Audit Observation	Comment of the Management	Recommendation
a) Of the sum of trade and other payable balances totaling Rs. 28,274,104 shown in the financial statements as at 31 December 2020, a sum of Rs. 25,686,717 representing 91	Not replied.	Accuracy of the payable expenses should be examined, thus taking action for settlement.

per cent belonged to a period of 03-10 years.

A payable balance of Rs. 1,177,768 that had been identified and included in the accrued expenses, a balance of Rs. 2,037,959 identified as being payable to miscellaneous parties, and a creditors balance totaling Rs. 3,090,311 remaining payable over 03-10 years, had been brought forward. However, action had not been taken to settle those creditors balance.

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| b) | A sum of Rs. 14,374,689 equivalent to 56 per cent of the payable expenses continued to exist over 03-10 years, had been shown in the financial statements as being payable to the Department of Inland Revenue. The Corporation had not taken action to settle those balances by obtaining verifications from the relevant institution. | Not replied. | Action should be taken to settle the balances by holding discussions with the Department of Inland Revenue. |
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1.7 Non-compliances with Laws, Rules, Regulations and Management Decisions, etc.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 9.4.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	Approval of the Secretary of the Treasury should have been sought on the handbook of procedural rules on the laws and rules relating to the human resource management, but the approval had not been obtained by the Corporation.	The said handbook had been prepared in the year 1976, and approval had not been obtained thereon in accordance with the Circular issued in the year 2003.	Approval of the Secretary of the Treasury should be obtained in accordance with the Circular.

- b) Public Finance Circular, No. 01/2014 dated 14 February 2014. An internal audit plan had not been included in the Action Plan expected to be implemented in the ensuing year of finance. An Internal Audit Unit was not in operation in the Corporation since the year 2016. Once a voluntary compensation scheme was in effect, re-recruitments could not be made to those posts. Action should be taken to carry out an internal audit.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review was a surplus of Rs. 39,416,231 as compared to the corresponding surplus of Rs. 39,349,905 for the preceding year, thus observing an improvement of Rs. 66,326 in the financial result.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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	Audit Observation	Comment of the Management	Recommendation
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a)	The Corporation had purchased 108,361,891 shares of the Lanka Cement Company on 06 December 1994 at a nominal value of Rs. 10 per share thus owning 62.45 per cent of the share capital of the Company. Nevertheless, the Corporation had not received any benefit whatsoever for the investment since the year of purchasing shares-1994 up to 31 December 2020.	The reason attributable to the non-receipt of benefits on the investment was that the operations of all the factories in Kankasanturai had come to a halt due to the war prevailed in the Northern province since June 1990.	Action should be taken to recover the dividends receivable on the investment.
b)	The Corporation had not received any benefit since the year 2014 on the investment of Rs. 6,400,000 made in 480,000 shares of the Mahaweli Marine Cement Limited in average of Rs. 10 per share.	It is stated that, during the several preceding years, this Company had not earned an income sufficient to disburse dividends .	Investments should be made productively.

- c) The pipe system and the 02 oil tanks of the Corporation located in Kankasanturai had been given to the Ceylon Petroleum Storage Terminals Limited without entering into a written agreement. Based on the assessment report prepared in that connection by the Government Valuation Department on 22 December 2015, it had been stated that a sum of Rs. 168,000,000 should have been paid to the Corporation with respect to the period of 2010-2020. Although the Corporation had informed the Line Ministry through the Letter Nos. HO/1/5 dated 24 January 2020 and HO/1/5 dated 30 June 2020 in regard of recovering the lease rents, the lease rents have not yet been recovered.
- Discussions are being held further under the patronage of the Line Ministry for recovering the said lease rents.
- Action should be taken to recover the outstanding lease rents and release the oil tanks in terms of written agreements.
- d) The Kesbepana land in Unawatuna, Galle shown to the value of Rs. 1,200,000 under fixed assets of the financial statements of the Corporation as at 31 December 2020, had been acquired by the Divisional Secretary, Habaraduwa in order to be used for reconstructing the houses damaged by Tsunami. Although a case had been filed by the Divisional Secretary to compensate the Corporation and provide deeds for the residents after the land had been vested in the Divisional Secretary, the Corporation has not received any compensation thus far.
- The land of the Corporation located in Thalpe, Galle, had been taken over by the Government in view of implementing a special housing project for the people displaced by Tsunami. In order to obtain compensation for the land, the Case, No. LA 643 had been filed by the Divisional Secretary. As for the said case, the new Board of Directors had signed and handed over the proxy forms in March 2021.
- Action should be taken to obtain the compensation due for the Corporation.



- e) The land of the Corporation in extent of 89.7 perches located in Kollupitiya had been assessed to the value of Rs. 735,000,000 in the year 2017 through the Gazette Notice, No. 14, 756/7 dated 12 July 1967. It was a main objective of the Corporation to use the land for a development project thereby earning a higher income, but the land had been provided for external institutions to be used as a car park. When selecting institutions, the land had been provided for 07 institutions without calling for tenders contrary to Section 1.2 of the Government Procurement Guidelines-2006, and the Corporation had not entered into written agreements with those institutions. Of the loan amounting to Rs. 97,700,000 obtained with the land being pawned to a state bank in the year 2017, a balance of Rs. 67,700,000 still remained payable as at 31 December 2020 whilst the total interest paid thus far amounted to Rs. 47,870,613. The annual interest paid for the year 2020 totalled Rs. 7,452,517, but the lease rent received through parking of vehicles totalled Rs. 4,424,070 for the year. As such, the Corporation had not taken action to productively invest the property located in a higher commercial value.
- A suitable investor could not be found owing to the prevailing situation in the country. As it was necessary to ensure cleanliness of the land until a potential investor was found in terms of the Municipal Councils Ordinance, the land was allowed to be used for parking vehicles for a period as short as 03 months, and this was not an investment project.
- Properties of the Corporation should be invested productively.
- f) That a large amount of the stock of limestone in the volume of 28,750 cubic meters dumped at the land of
- It is expected that this stock of limestone will be used for a project scheduled to be implemented in due course.
- The said stock of limestone should be made use of yielding economic benefits,

the Corporation in Kankasanturai after being mined in the year 2018, had been removed by a certain party, was observed in the physical inspection of the Corporation. The said stock of limestone remained insecurely for a period of 03 years, but the Corporation did not take measures to secure and productively use the stock of limestone.

and the stock should be brought to accounts.

- g) In order to dispose the machinery of the cement factory in Kankasanthurai owned by the Sri Lanka Cement Corporation and the Lanka Cement Company of which 62 per cent of the shares was owned by the Corporation, measures were taken by the Army to call for tenders without consent of the Sri Lanka Cement Corporation or the Company. The Army recovered a sum of Rs. 75 million on the scrap metal removed by the tenderer during the period of agreement. Rs. 20 million of that sum was given to the Lanka Cement Company in the year 2016 whereas the balance amount of Rs. 55 million has not yet been given to the Sri Lanka Cement Corporation.
- The said sum should be recovered by filing a case in terms of the report of the presidential investigation. It is informed verbally that the Ministry of defense agreed to file a case at the meeting held by the Ministry of defense in which officers of the Line Ministry and the Corporation participated.
- Assets of the Corporation should be secured, and action should be taken to recover the dues.

### 3.2 Transactions of Contentious Nature

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
An agreement had been entered into on 29 December 1993 with the Puttlam Cement Company (Siam City Cement Company Limited at	A complaint on the financial irregularity was lodged with the Department of Criminal Investigation on 2020.06.25	The investigation should be concluded without delay, thereby entering into a new

the present day) following the Cabinet Approval, No. 96/1900/111/135 dated 21 August 1996 in order to give on 50 year lease the 5140 acre land owned by the Sri Lanka Cement Corporation in Aruwakkalu at which the limestone mine existed. Conditions had not been set in the agreement to annually increase the lease rent; instead, a fixed annual installment of Rs.11,500,000 had been decided. Accordingly, the Corporation had been deprived of an extensive income during 1993-2018. Despite being mentioned in the Supplementary Agreement, No. 268 signed on 07 November 2019 that the lease rent be increased by 12 per cent, no agreement had been entered into on increasing the lease rent for the period of 1993-2018. The agreement had been signed so that the annual lease rent would be US \$ 319,118 with effect from the year 2019, but approval of the Attorney General was not obtained for the said Supplementary Agreement even up to the date of this report.

after the Line Ministry was informed in that connection. That complaint is still being investigated. The Inspector General of Police was met in July 2021 to apprise of the delay in investigation.

### 3.3 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
Approval of the Department of Management Services had not been obtained for the staff of the present day after the implementation of Voluntary Retirement Scheme in terms of Section 02 of the Public Enterprises Circular, No. 2016/2 dated 08 March 2016. As per Section 07, staff should not be recruited, or new posts should not be made. Contrary to that, three employees had been recruited on daily basis or service agreements. It would have been possible in terms	Not replied.	Action should be taken in accordance with the Circular.

of the Letter, No. PE/RES/VRS-2016 of the Department of Public Enterprises dated 10 November 2016 to attach employees who had not been compensated, to secure and maintain properties and machinery of the Corporation. However, approval of the Ministry had not been sought for the employees recruited on daily basis or service agreements.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Comment of the Management	Recommendation
<p>Provided that the enterprises should be managed with a long term vision, establishment of targets to be timely achieved and the responsibility for accomplishing those targets to be delegated rationally up to the operating level had been necessitated in terms of Section 5(1)(d) of the Public Finance Circular, No. 01/2014, dated 14 February 2014. Targets to be achieved in each year had not been clearly shown in the Corporate Plan prepared by the Corporation, nor had the responsibilities been delegated in that connection.</p>	<p>Action will be taken in due course to provide a register for delegation of responsibilities relating to the expected targets.</p>	<p>The Corporate Plan should be prepared in terms of the Circular.</p>