

Evaluation on the Production, Operation, and Sales Processes of the Tile Factories of the Ceylon Ceramics Corporation



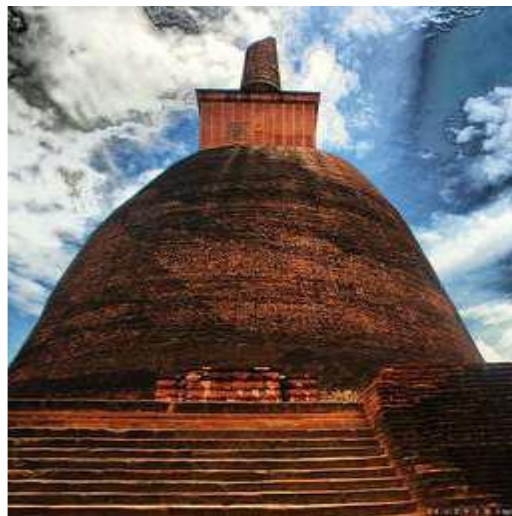
Performance Audit – 2019

Division – TCM

Branch – TCM/A



National Audit Office



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01. Executive Summary

The manufacture of clay roofing tiles had been commenced in Sri Lanka in the year 1955, and this industry had been incorporated as Ceylon Ceramics Corporation in accordance with the State Industrial Corporations Act, No. 49 of 1957. It is the vision of the Corporation to become the pioneer in the market for products of tiles, bricks and clay based items with excellence in Sri Lanka whilst the supply of products with higher quality at competitive prices ensuring the customer satisfaction thus bearing social responsibility thereon, is the mission of the Corporation.

With emphasis on vision and mission, 09 factories had been established throughout the country. The reasons attributable to this performance audit include: conserving a product which is harmless to the public health, securing a local industry owned by public sector, being an environmentally-friendly product, and saving the foreign exchange spent on alternative roofing materials.

The performance audit was planned and carried out during August – October, 2019. The techniques used in the audit comprised, collection of documentary evidence, field inspections, physical verifications, and questionnaires. The following matters are included in the summary of material audit findings. Observations are provided with respect to the analysis on products, utilization of machinery and other facilities, and marketing relating to the factory in Eragama which is the only tile factory still in operation.

Instances were observed in which the production had fallen into decline due to old machines in the tile factories often ending up in failures. As the trained employees of the factories had been removed after being compensated, there was a dearth of experienced employees. As such, production process had been continued with employees on contract basis, and the production is carried out on lease basis at the present day; thus, the damaged stocks of tiles are on the increase with quality of the products becoming poor. As stocks of tile with substandard quality had been sold by factories such as the one in Uswewa, such stocks had been rejected, and additional legal expenses had to be incurred to resolve the legal issues arisen in that connection.

02. Introduction

2.1 Historical Background of Manufacturing Tiles

Need for a shelter is considered the third priority among the basic needs of humans. With development process making great strides, buildings of wide diversity are constructed in the country. Roof plays a pivotal role in terms of beauty and protection of the architectural grandeur whilst the medium of shelter contributes immensely to that effect. It is apparent that such mediums of shelter have not been improved overnight, but the development process took place gradually over a wide span of time. The house would have been the result of pre-historic man's endeavors to get rid of hardships caused by the nature's phenomena that they would have faced while dwelling under the trees, tree hollows, and caves. The old humans would have conjured up the abstract designs of a house though, it is not clear as to whether he conceptualized the idea of "roof"; or rather, it might have been a feature that would have been added at a later stage. With that concept in mind, the medium of shelter would definitely have been an issue for him, and in the primeval times, parts of trees that could easily be found, had been used as the medium of shelter. It is no secret that, until the recent past, types of grass like cogon, leaves of coconut and palmyrah, dried barks, and agricultural byproducts such as straw, had been used as mediums of shelter. With such a beginning, the mediums of shelter have come a long way since then.

With Buddhism taking root in Sri Lanka in the wake of Arahat Mahinda Thero's arrival, Buddhist shrines were built conforming to architectural designs exclusive to this country. Archeological explorations confirmed that roofing tiles, floor tiles, and heated bricks made of clay had been used in the construction of those shrines. As such, the industry of roofing tiles established in Sri Lanka. Evidence have been found in the archeological excavations carried out in ancient kingdoms such as, Anuradhapura and Polonnaruwa that artistic tiles of different shapes had been manufactured. The type of tile known as "*Sinhala Ulu*" being exclusive to us in the local tile industry, is still in use providing shelter for some of the old buildings.

Incorporation of the Corporation

The establishment of the institution named “Ceylon Porcelain” through the Gazette Extraordinary, No. 10823, dated 01 August 1955 under the Government Sponsored Corporations Act, No. 19 of 1955, is a milestone in the industry of manufacturing ceramic products in Sri Lanka. The name thereof had been changed to be read as “Ceylon Ceramics Corporation” through the Gazette Extraordinary, No. 11466, dated 01 August 1958 in terms of State Industrial Corporations Act No. 49 of 1957 thereby incorporating as a public Corporation later. At the present day, the Head Office of the Corporation is established at No. 561/3, Elvitigala Mawatha, Colombo 05.

Locations of the Tile Factories

Four tile and brick factories (Bangadeniya, Weuda, Yatiyana, Anuradhapura) administered by the National Small Industries Board and included in the industrial map of Sri Lanka, along with 03 brick and tile factories (Oddusuda, Eragama, Mahiyanganaya) included in the mineral resources map of Sri Lanka, had been vested in the Ceylon Ceramics Corporation in the years 1972 and 1973. The factory in Bingiriya had later been established under the Corporation whilst the factory in Uswewa had been vested in the Corporation by the River Valleys Development Board. Particulars of the factories in regard to the location, year of establishment, year of vesting in the Corporation, and the technology used, are as follows.

Name of the Tile Factory -----	Province -----	District -----	Year of Establishment -----	Year of Vesting in the Corporation -----	Country of Machinery's Origin -----
Eragama	Eastern	Ampara	1958	1972	Germany
Bangadeniya	North Western	Puttalam	1964	1972	Czechoslovakia
Weuda	North Western	Kurunegala	1965	1972	Czechoslovakia
Yatiyana	Southern	Matara	1964	1972	Czechoslovakia
Elayapattuwa	North Central	Anuradhapura	1965	1973	Czechoslovakia
Oddusudan	Northern	Mulativu	1968	1972	Czechoslovakia
Mahiyanganaya	Uwa	Badulla	1961	1972	Germany

Bingiriya	North Western	Kurunegala	1977	Established in 1977 under the Corporation.	-
Uswewa	Sabaragamuwa	Ratnapura	1968	1980	Czechoslovakia

The locations of those factories shown in the map are given in Annexure 01 and Annexure 02.

Nationalization of the Ceramics Division of the Corporation

With the advent of open economic policy in the year 1977, and the private sector showing their interest in the tile industry, the factories of the Ceramics Corporation owned by the Government had gradually become crippled. The reasons such as, the establishment of privately-owned small and medium scale tile factories in Dankotuwa, advent of diversified roofing materials, and introduction of asbestos to the country, could have attributed to the downfall of the aforesaid 09 factories. In the wake of introducing the open economic policy, the Ceramics Division which had been pivotal for the Corporation, was nationalized in the year 1990 whereas the “Tile and Brick Unit” of the Corporation is being maintained as Ceylon Ceramics Corporation.

As a result of the long-drawn-out process since the nationalization of the Ceramics Division in the year 1990, the Corporation maintains 09 tile factories in 08 districts covering 07 provinces in Sri Lanka. The factory in Oddusudan established in the Northern Province, being one of the aforesaid tile and brick factories maintained by the Corporation, had been closed down in the year 1992 due to the armed conflict prevailed in the Northern and Eastern Provinces since the year 1982. Later in the year 2003, the factory in Bangadeniya located in Puttalam had been closed down with all the assets sans the land sold. The factories in Weuda and Elayapattuwa had been closed down in the year 2009 as well.

Voluntary Retirement Scheme for the Employees

The Corporation that had sustained losses over an extensive period due to unfavorable financial management, had become a burden of expenditure for the Treasury. As such, a competent authority had been appointed to the Corporation since the year 2010 in accordance with the Letter, No. PE/COMC/TR -20 of the Director General of Public Enterprises, dated 01 July 2010 after removal of the Board of Directors in view of restructuring the Corporation. Accordingly, the voluntary retirement scheme had been effected in the year 2012 with payments totalling Rs. 326,936,589 made as compensation for 495 employees, and the factory in Elayapattuwa had also been closed down.

Appointment of a Competent Authority for Administration

The Competent Authority appointed on 01 July 2010 had been entrusted to lease out all the factories owned by the Corporation to selected private investors on long term basis separately or as a whole following the Cabinet meeting held on 20 October 2010 with respect to the Cabinet Paper, No. 10/2423/425/004-1 presented by the Minister of State Resources and Enterprise Development dated 24 September 2010, and the Cabinet Paper, No. 10/2543/425/004-V dated 18 October 2010. The first competent authority of the Corporation had not been able to lease out at least a single factory, except for allowing the employees to retire through the implementation of voluntary retirement scheme in the year 2012 thus paying compensation and the sale of assets that had belonged to the factory in Bangadeniya. His term of office had ended on 22 January 2015.

The second competent authority had been appointed with effect from 26 February 2015 by the Minister of Industry and Commerce, the Line Ministry, without taking action to obtain approval of the Ministry of Finance for that appointment. The said competent authority had opened and maintained 05 tile factories including the one in Yatiyana that had remained closed by that time. The production processes of 04 tile factories in Elayapattuwa, Mahiyanganaya, Yatiyana, and Uswewa remain temporary halted up to the present day since 25 January 2018 due to reasons such as, lifting the ban on asbestos owing to the issues in the manufactured tiles and Government policies, decrease in the sale of tiles, and financial difficulties. Accordingly, only the

factory in Eragama is involved in the production process at present. The second competent authority had also been removed with effect from 13 September 2018 thus appointing a third competent authority following a decision of the Cabinet. The competent authorities appointed had been unable to carry out the tasks they had been entrusted to except the removal of employees with compensation paid, sale of assets belonging to the factory in Bangadeniya, opening the factories temporarily, and closure of 4 factories again during the 09 year period from July 2010 to September 2019.

Current Progress of the Corporation

The demand for tiles had constantly been on the decrease due to reasons such as, alternative products for tiles hitting the market, using such products for roofing is inexpensive, and lesser requirement of timber. Furthermore, it had been decided through the Government policy decision taken on 06 September 2016 to regulate the import and use of non-environmentally friendly asbestos in Sri Lanka with effect from 01 January 2018. However, the Government had again decided to suspend the said decision on 19 December 2017 thus paving way for the decrease in the sale of tiles at the present day. It is observed that the Corporation is maintained as a self-financing entity without being assisted by the Treasury through the efforts of casual employees and 37 permanent employees who had remained after implementation of VRS in the year 2012.

2.2 Benefits in Using Tiles

Various roofing solutions have entered the market with the advances in technology, and among them are the products like, asbestos sheets, hot dip galvanized sheets, sheets painted with hot dipped aluminium / zinc, concrete roofing tiles, sheets made of glass, and fired clay roofing tiles. However, no substitution exists on par with the roofing tiles being in use today. The reasons therefor include: the natural and brilliant color of tiles, eye-catching shapes that the tiles can be easily molded into, being innocuous to the health, and higher demand in the construction industry due to their ability to reflect sunlight. A roof made of tiles is not only environmentally-friendly, but provides comfort. Based on the demand of the construction industry, a wide range

of artistically-shaped fired clay roofing tiles has hit the market, and similar products with miscellaneous shapes are finding their way into the market. As such, many a benefit can be identified with clay based roofing tiles. Such benefits include:

- a) Possibility for long-term use as a roofing solution.
- b) Product diversification with aesthetic value.
- c) Resistance to fire, sound, and heat.
- d) Robustness and replacement is not costly.
- e) A product made locally with environmentally-friendly raw materials.
- f) The house remains cold with heat reflected out, thus conserving energy and resulting in economical benefits.
- g) A healthy roofing material.

2.3 Reasons for Selecting the Subject

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- a) To preserve a local industry owned by the Government sector.

Ceylon Ceramics Corporation that underwent the restructuring process of the Government, is the only public institution involved in the tile industry in Sri Lanka. Accordingly, with the appointment of a competent authority since the year 2010 entrusting him with all the functions thereof, a policy decision had been taken by the Government to lease out the tile and brick factories owned by the Ceylon Ceramics Corporation to the private sector separately or as a whole. As the Corporation had been maintained from the year 2010 up to the present day- 2019, without becoming a burden of expenditure to the Treasury, it is an objective of ours to preserve this industry.

- b) Saving the foreign exchange on alternative roofing solutions.

The possibility of retaining the monies spent annually on importing raw materials and other items required for alternative roofing solutions by promoting the manufacturing of tiles, thus causing a favorable effect to the national economy with import expenses slashed.

- c) To increase the export revenue by approaching the export market

The private sector at present is involved in small scale export of roofing tiles. Establishment of an improved tile factory in that connection and entering the export market thereby assisting to increase the export revenue thus strengthening the local economy.

- d) Preservation of a product harmless to the human health.

Tiles and asbestos are mainly used as the roofing material in Sri Lanka. As per the Cabinet Decision, dated 06 September 2016, about 80 per cent of the chrysotile imported to Sri Lanka is used to manufacture roofing sheets. The import of crocidolite considered as a carcinogen by the World Health Organization, had been banned in the year 1987. All types of asbestos currently in use in Sri Lanka including the widely used chrysotile, have been identified by the World Health Organization as carcinogens. As such, the tile industry should be preserved by taking into account the betterment of the people's health while mitigating the health risks caused by asbestos.

- e) Being an environmentally friendly product

Being 100 per cent natural, clay is a resource that lasts longer causing no risks to the environment. Unlike the other roofing materials, the roofing tiles being manufactured with clay, are environmentally friendly and innocuous to the human health.

- f) The Corporation is in the possession of raw materials and factories

The Corporation owns 08 tile factories established in 08 Districts Island wide. Even though the factories are equipped with all the facilities required for the manufacturing process (clay, firewood, sand, plant, labor), such resources belonging to the Corporation remain unutilized due to restrictions arisen in the wake of restructuring proposals.

- g) Failure to preserve the tile industry consequent upon the factories being leased out

The tile industry could not be preserved during the process of leasing out the factories in accordance with policy decisions taken by the Government. As being the first among the factories leased out to the private sector, it was the factory in Bangadeniya of which the buildings and machinery had been sold out. At present, being the second step thereof, action is being taken to lease out the factory in Weuda for a hospital project for a period of 50 years. As such, the tile industry is facing disruption.

2.4 Scope of Audit and Limitations to the Scope

2.4.1 Scope

The audit was carried out in accordance with the guidelines on performance auditing set out by the International Organization of Supreme Audit Institutions. As a basis to decide on the extent to which the objectives mentioned can be achieved, and identify the risks relating to the achievement of such objectives in order to reach a conclusion based on the observations and recommendations of the performance audit carried out by us, the operations and internal control systems of our institution are examined thereby obtaining an insight.

2.4.2 Authority to Carry Out the Audit

This audit was carried out under my direction in pursuance of provisions in Article 154 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.

2.4.3 Limitations to the Scope

- a) Evaluation on the production, operations, and sales processes during 2015 – 31 July 2019 of the factory in Eragama, the only tile factory involved in production process by September 2019 under purview of the Corporation. Due to lack of documentary evidence relating to the tile factories in Mahiyanganaya, Uswewa, Yatiyana, and Bingiriya of which the production process had been suspended on

25 January 2018, the processes of production, operations, and sales were evaluated with respect to the period from the year 2017 up to July 2019.

- b) None of the legal documents relating to the period from the inception of the Corporation up to the present day, had been maintained safely either at the Head Office of the Corporation or the 04 tile factories inspected. Hence, our scope had been limited as documentary evidence sufficient for the performance audit report had not been made available to the Audit.
- c) Except for the effect caused by the reports of the Cabinet subcommittees, Cabinet Memorandums, and Cabinet Decisions that had either been made available to the Audit or otherwise, this report does not discuss on the accuracy thereof, and the other products except for the tiles manufactured by the Corporation.
- d) Our report does not discuss in detail on the Government policies, cost on roofing tiles, and the people's attraction to the alternative roofing solutions.
- e) There existed no possibility to compare the tiles manufactured by the Corporation with the ones from the private sector in terms of quality as the tiles manufactured by the Corporation were bigger in size and higher in weight, and the shape was different to the ones manufactured by the privately-owned factories.

2.5 Audit Objectives

- (a) Main Objective :- Evaluation on factories which had been closed down for long period by July 2019 and closed down temporarily from 25 January 2018 and evaluation on the process of manufacturing, operating and marketing of the Eragama Factory which is in operation at present.

(b) Sub Audit Objectives

- (i) Evaluation on manufacturing and operating process of the Eragama Factory which is the only factory, in operation at present.
- (ii) Evaluation on the selling process of the Eragama Factory.
- (iii) Evaluation on factories which had discontinued manufacture temporarily.
- (iv) Evaluation on factories which had ceased operations.
- (v) Evaluation on interference of the Government for the going concern of the Corporation (It is not discussed at length on Government Policies and Cabinet Decisions under such situation)
- (vi) Evaluation on use of technology
- (vii) Evaluation on social and economic contribution made by factories

2.6 Audit Criteria

- (a) Extraordinary Gazette Notification No.10823 dated 01 August 1955 under the Government Sponsored Corporation Act, No. 19 of 1995
- (b) Extraordinary Gazette Notification No. 11466 dated 01 August 1958 under the State Industrial Corporation Act, No. 49 of 1957
- (c) Cabinet Decision No. අ.ම.ප./10/2423/425/004 – 1 dated 28 October 2010
- (d) Cabinet Decision No අ.ම.ප./11/2068/5553/018 – 1 dated 17 November 2011
- (e) Cabinet Decision No අ.ම.ප./15/0602/012 – 1 dated 01 June 2015
- (f) Letter No. PE/COMC/TR – 20 dated 01 July 2010 of the Director General of the Department of Public Enterprises
- (g) Circular No. PS/SD/NFPU/08/18 dated 05 September 2018 of the President issued under the title of “National Food Production Year -2018”
- (h) Assets Management Circular No.01/2018 dated 17 March 2018 issued on “Management of non-financial assets of the Government, disposal of motor vehicles not in running condition”

- (i) Cabinet Decision No. අ.ම.ප.10/2423/425/004 – 1 dated 20 October 2010
- (j) Letter No. BD/CBP/4/1/2 – 2018 dated 31 July 2017 of the Department of National Budget (Sustainable Development Goals)
- (k) Quantity and percentage of roofing tiles rejected due to its quality.

03. Audit Observations

3.1. Evaluation on Eragama Factory in operation

The Eragama Roofing Tiles and Bricks Factory located in Eragama Village in the Sammanthurai Pattu Divisional Secretariat in the District of Ampara of Eastern Province had been commenced in the year 1958. This Factory which was owned by the Ganga Nimna Development Board had been vested in the Ceramics Corporation on 01 October 1972. This is the first roofing tiles and bricks factory owned by the Government of Sri Lanka.

Production Capacity of the Factory

Types of Roofing Tiles manufactured	Capacity (Per day)
	Roofing Tiles
Flat Tiles	11,600
Ridge Tiles	950

This is the sole Factory which has the largest land in extent on which manufacturing activities are carried out by the Corporation. The clay consisting of colour and quality required for manufacture of tiles, is obtained from the same land and the raw material problem that have affected other factories, had not occurred in this Factory. Flat tiles, ridge tiles and bricks are the major manufactures of this Factory. The land owned by the Eragama Factory is 232 acres, 00 roods, 20 perches in extent and the said lands consisting of 03 blocks had been legally vested in the Corporation by the Extraordinary Gazette Notification No. 16/9 dated 28 December 1978.

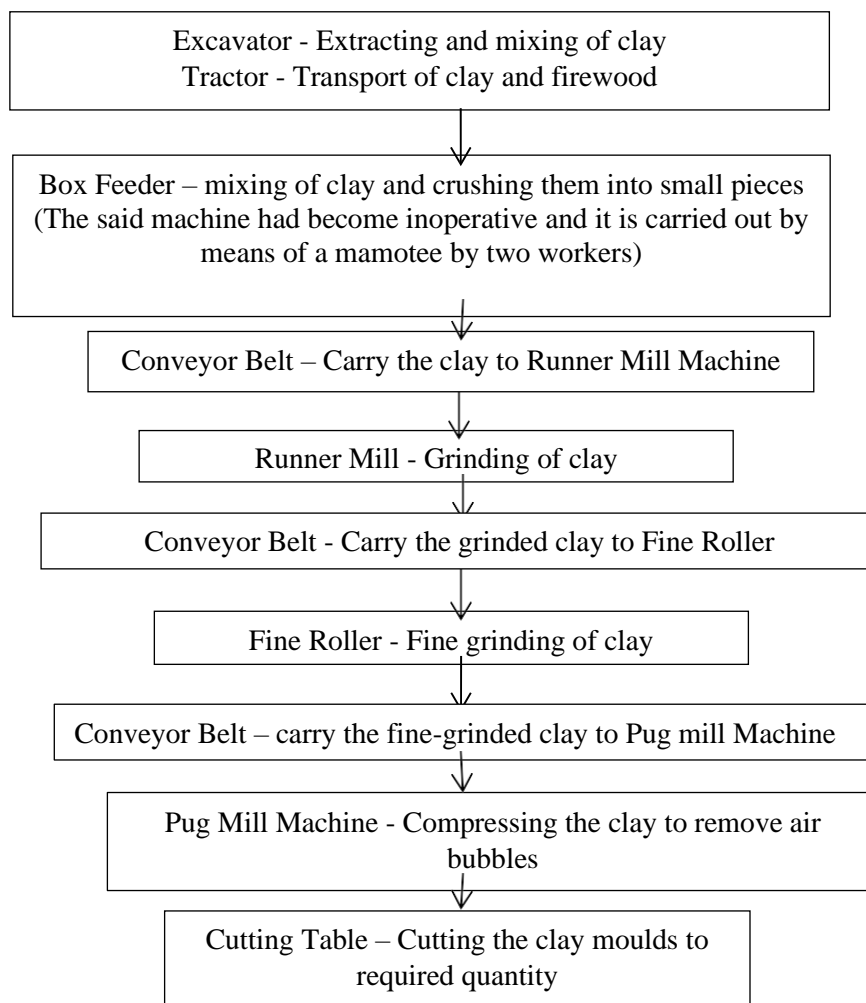
A hundred employees of the Eragama Tile Factory owned by the Corporation had been retired under the Volunteer Retirement Scheme from 31 March 2012 and 05 employees have continuously served in the Factory due to failure in obtaining compensation under the

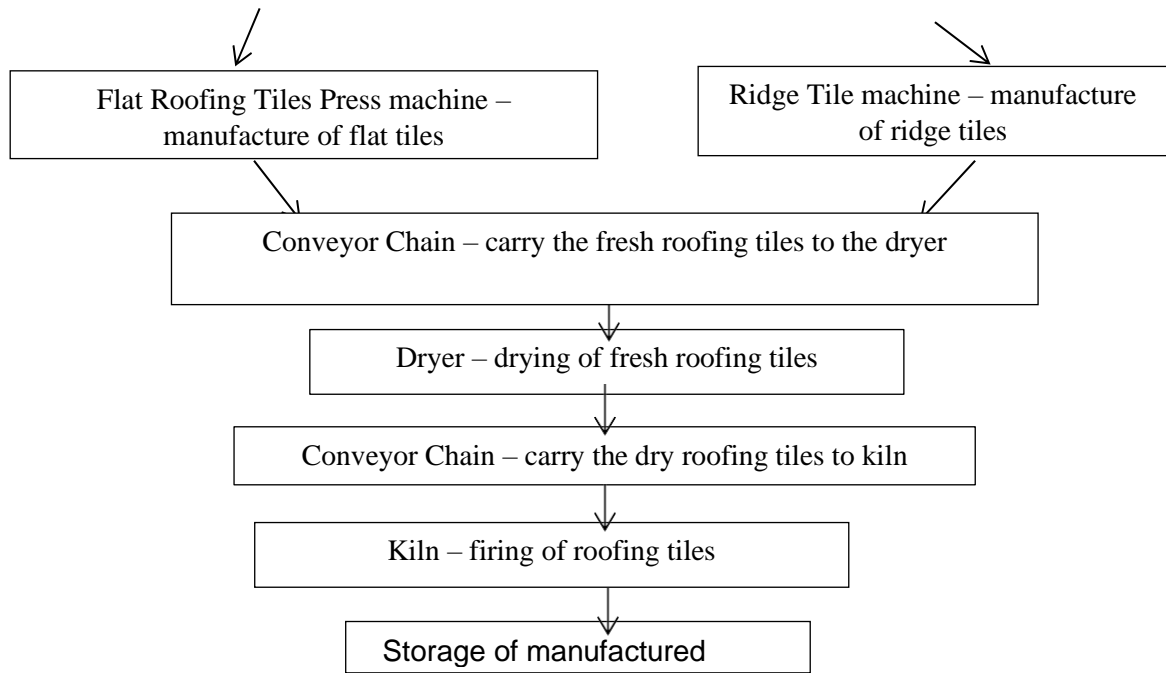
Volunteer Retirement Scheme. The Sri Lanka Army and Civil Security Force had commenced the manufacturing of bricks for the “Sanda Hiru Seya Construction Project” by utilizing resources of this Factory from March 2012 without entering into any written agreement. Manufacturing activities of the Factory are carried out at present by deploying 05 remaining employees of the Corporation and other employees who serve on contract and hire basis and all expenditure of the Corporation are incurred by means of income of this Factory.

3.1.1 Analysis on Manufacturing Activities

Manufacturing activities of the Factory had been commenced and maintained since the year 1958 and the process of manufacturing activities of the Eragama Factory which was vested in the Corporation from 01 October 1972, has been described below.

Machinery used for Manufacturing of Tiles and Manufacturing Process of the Eragama Factory

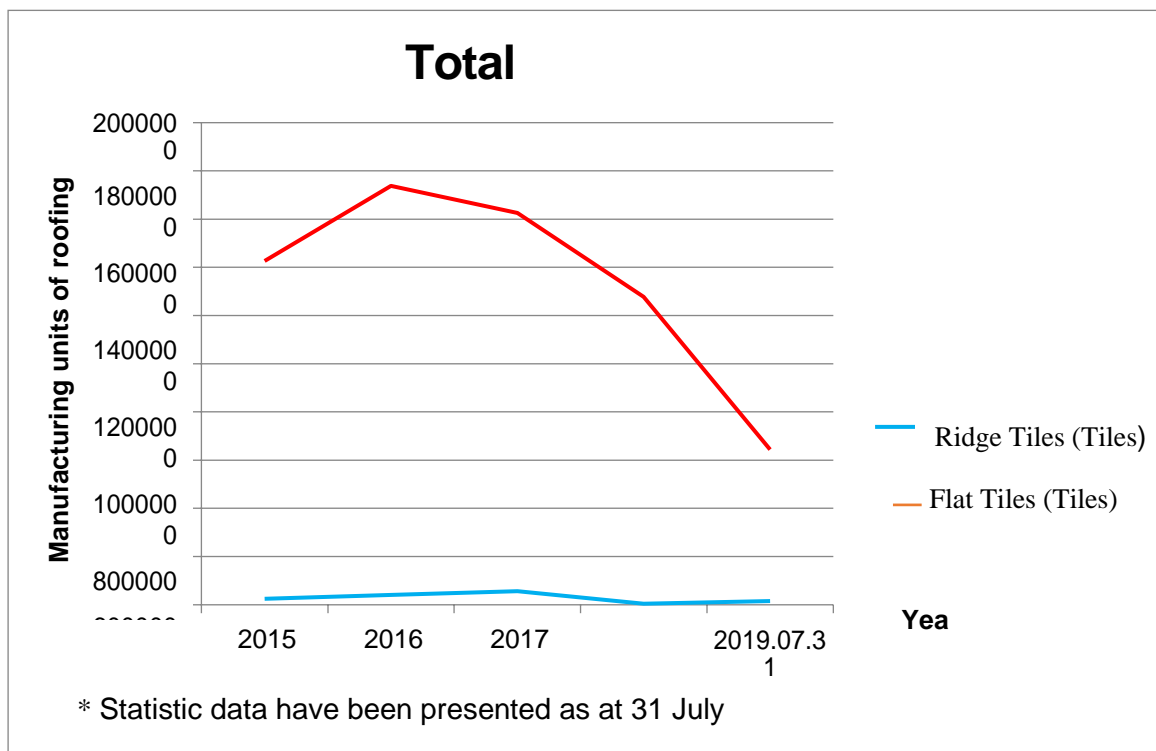




Two types of roofing tiles such as flat tiles and ridge tiles can be identified as major manufactures of the above mentioned manufacturing process and the progress of those manufactures during 04 preceding years and 07 months of the year 2019, is as follows.

Year -----	Quantity of Flat Roofing Tiles manufactured (Tiles) -----	Quantity of Ridge Roofing Tiles manufactured (Tiles) -----
2015	1425191	24597
2016	1737503	41029
2017	1624646	56226
2018	1277421	4122
31.07.2019 *	643325	15731

Annual variations of manufactures of the Factory, indicated in the above mentioned table, can be illustrated by the Graph as follows.



The following matters are observed relating to manufactures of the Eragama Factory.

- (a) The manufacture of flat roofing tiles as at 31 December 2015 was 1,425,191 and it had increased up to 1,737,503 tiles as at 31 December 2016. However, a tendency of decrease in the manufacture of tiles was observed by 31 July 2019.
- (b) The manufacture of ridge roofing tiles as at 31 December 2015 was 24,597 tiles and it had gradually increased in the years 2016 and 2017. However, a tendency of decrease in the manufacture of tiles was observed by 31 July 2019.
- (c) Machinery owned by the Factory are outdated, thus indicating their frequent idleness and underutilization of machinery due to manufacture of tiles on the basis of piece rate by now.

3.1.2. Utilization of Machinery and other Facilities

- (a) Utilization of Flat Roof-Tiles Press Machines

Three flat roof- tile press machines used for the manufacture of flat roofing tiles are available with the factory and out of those, one machine had remained idle from the year 2002 up to now. The said machine is shown by Figure -1. Even

though other two machinery were in usable condition, only one machine has been used for manufacturing activities at present due to decrease in demand for sale of tiles. As such, one press machine had remained underutilized. Those press machines are shown by Figures 01 and 02.



Figure - 1 - Inoperative Press Machine



Figure 2 - Operative Press Machine

(b) Inoperative Box Feeder

.....
 The Box Feeder can be identified as the machine which is used for the initial step of the process of manufacturing flat roofing tiles and ridge roofing tiles of the Eragama Factory. The seasoned clay is mixed by using the said machine and cut into pieces and moved to the conveyor belt to carry clay to the Runner mill Machine. The clay required for production is moved uniformly and continuously by this machine. This Box Feeder machine is inoperative at present. Figure – 3 shows that two labourers have been deployed in the said purpose. Accordingly, the contribution, through transferring the clay by a machine, had not been made to the manufacturing process by now and as such, the manufacturing efficiency had decreased. A Photograph is shown below.



Figure -03 Directing workers towards the manufacturing process by means of a mamotee

(c) Natural Drying Hall for Roofing Tiles

Fresh roofing tiles (not dried) manufactured through the manufacturing process are kept on moulds and stored on shelves of the drying hall. There are 236 drying shelves therein and 25 shelves out of those should have been repaired due to decay. It is shown by Figures 4 and 5.



Figure - 4

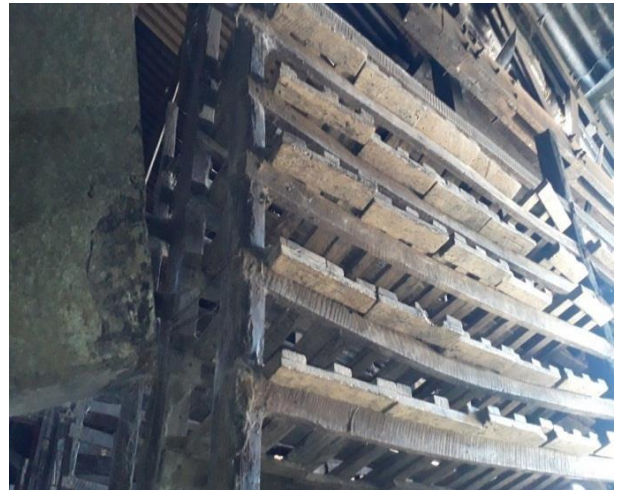


Figure - 5

(d) Decay of the Roof of the Factory

The factory premises where Government quarters and factory buildings are located, was 34 acres in extent. The Factory, in which the manufacturing process is carried out, was roofed with tin sheets (Takaran) and there were holes in many places in those sheets due to decayed condition. As such, rain water has been leaking into the Factory during rainy seasons from several years. As a result, subjecting the machinery to decay, wasting the factory premises, hindering the drying of roofing tiles, failure in involving in manufacturing activities in a protected manner can be identified as problems faced during the manufacturing process. It is shown by Figures 6 and 7.



Figure - 6

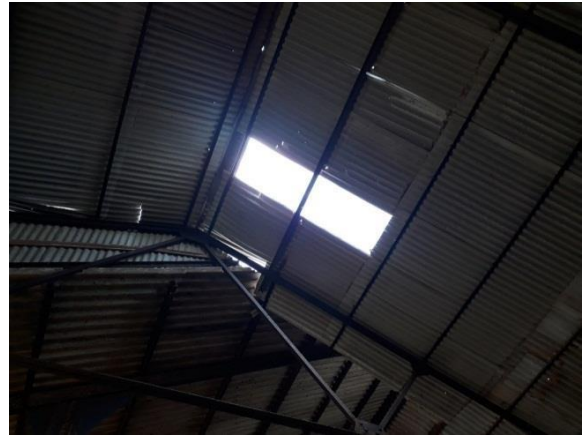


Figure – 7

(e) Non-use of the Farm of the Factory for Cultivation

The President’s Circular titled “National Food Production Year – 2018”, No. PS/SD/NFPU/08/18 dated 05 September 2018 of the Presidential Secretariat had been referred to the Corporation by the Line Ministry – Ministry of Public Enterprises and Kandy City Development for taking action according to the said Circular instructions. The paddy land (cultivation land) of 50 acres in extent located in the Eragama area, owned by the Corporation had remained as a barren land without using for any cultivation activity whatsoever even by from 16 March 2018 to 25 September 2019, the date of audit. Accordingly, it was confirmed that existing resources had not been effectively used for economic activities. The land not used for cultivation is shown by Figures 8 and 9.



Figure - 8



Figure - 9

(f) Implementation of Freshwater Fish Project

The Competent Authority of the Corporation had given the approval on 02 May 2019 to lease out a portion of land of 05 acres in extent of the Eragama Factory premises without adhering to the Government Procurement Guidelines, to an external party for commencing a freshwater fish project as per instructions of the Minister in Charge of the Subject. A written agreement had not been entered into between two parties for commencing the said project and the said investor had commenced the project. Even though he had agreed to pay a sum of Rs.15,000 to the Corporation as the monthly lease rental, the said lease rental as well had not been paid up to now.

(g) Utilization of Vehicles

It had to travel to Ampara town which locates at a distance of 12 kilometres using an impassable roads where vehicle were not moving to deposit the daily income of the Eragama Tile factory, which is the one and only tile factory which is being maintained by the Corporation at present for its manufacturing activities. Further, only the cab bearing No. 51 Sri 8014, owned by the factory and purchased in the year 1991 and in a poor running condition had been the only vehicle provided to the factory for catering all the transport needs of the Corporation such as checking illegal acquisition of lands from the extent of 232 acres owned by the Corporation (Searching the protection of the land), checking on illegal sand mining in lands owned by the Corporation, discharging duties with the Head Office and especially when employees of the factory face accidents during day and night times

(h) Non utilization of forest lands

According to the valuation report bearing AM/IM/2018 of 04 May 2012 provided by the Uva and Eastern Provincial Office of the Valuation department, total value of lands, buildings, machinery and vehicles owned by this Factory in the year 2011 had been valued at Rs. 42,650,000. The value of lands included in the assessed value was Rs. 14,150,000. A large portion of

the remaining land apart from the land in extent of 34 acres used for obtaining clay for the manufacture of tiles and the land required to conduct the factory out of the land in extent of 232 acres owned by the Corporation, remained idle without using it for a productive function.

(i) Non disposal of vehicles not in running condition

Even though all the vehicles that are in non-running condition should be disposed before 30 June 2018 in terms of the Assets Management Circular No. 01/2018 of 17 March 2018 issued by the Ministry of Finance and Mass Media on “Management of Non-financial Assets of the Government”, 03 motor vehicles which are in the non-running condition in Eragama Factory of the Corporation had not been disposed. They are depicted in figures 10, 11 and 12.



Figure 10 – Lorry, 41 Sri 7940



Figure 11 – Tractor, 36 Sri 2451



Figure 12 – Tipper, 47 - 4192

(j) Illegal Acquisition of the Factory Premises

It was confirmed by a written confirmations received by the Head Office of the Corporation that a land in extent of 03 acres, 01 rood and 22 perches out of the cultivation land owned by Eragama Tile Factory had been acquired illegally by a person for a longer period of time. A case had been heard at the District Court of Akkaraipattu from the year 2007 to settle this issue. Accordingly, it was confirmed that adequate measures on security had not been adopted on the safety of the lands owned by the Corporation.

(k) Provision of assets owned by the Corporation to external parties

One hundred (100) employees served in this Factory had retired in the year 2012 under Voluntary Retirement Scheme (VRS). The Governing Authority of the Corporation had handed over the factory premises, clay as raw material of the product and lands and buildings of the factory to manufacture bricks for “Sandahiru Seya” from the year 2012 to the Sri Lanka Army and Civil Defense Force without entering in to a lawful agreement. Accordingly, the clay deposit and 10 buildings had been used by the Sri Lanka Army and the Civil Defense Force until up to date without making any payment. Manufacturing of bricks is being conducted continuously up to date by the Sri Lanka Army and the Civil Defense Force and the Corporation had no any direct financial benefits apart from safeguarding the property. Accordingly, it was observed that action had not been taken to efficiently and effectively utilize assets of the Corporation for the accomplishment of the progress of the Corporation.

3.1.3. Quality Control

(a) Checking the condition of products

As clarified by the present Manager of the Factory to the Audit at the audit test check, the Production Manager examine the suitability of the percentage of sand contained in clay, the major raw material used in the manufacture of tiles, using a simple quality control equipment that had been used from the past. In addition to that, the Factory Manager examines the weight of a brick and whether bricks have been dried adequately. It was observed that the present Factory Manager, who serves in the factory for a longer period, carries out this function based on his experiences and ability. Improved Research and Quality Controlling Division had not been introduced for this purpose and a trained, qualified and competent Officer had not been employed for that task. Under these circumstances, any step had not been taken on safeguarding the quality of the manufactured tiles uniformly and for the diversification of products and for directing towards producing innovations.

(b) Research and Training in Manufacturing

Either the Factory of the Corporation does not possess a Research and Training Division and a formal employee training methodology or an employee motivation methodology conducted continuously for the manufacture and marketing of products had not been implemented subsequent to operating the voluntary retirement scheme on 31 March 2012. Even though the manufacturing process of the factory had been operated after the implementation of the proposal on the voluntary compensation, it could be observed that the efficiency and the productivity is in a very low level and the available resources are not utilized in the maximum level since attention had not been paid for the training of employees and research activities.

(c) Security of Employees

In considering the functions in each phase starting from supplying raw materials for the tile manufacturing process up to the grading of finished goods, it was observed that there is a possibility for factory employees / officers to face a continuous risk and security provisions had not been made for the security of the factory premises in order to enable the protection and welfare of such employees / officers. It was observed that a direct negative effect had occurred based on these matters for the protection of employees, manufacturing efficiency and the motivation of employees.

3.1.4. Manufacturing Cost and Operational Activities

(a) Computation of the Manufacturing Cost

In considering the price (Manufacturing Cost) of a tile manufactured at Eragama Factory, the manufacturing cost had been understated as the manufacturing cost of a tile had been computed without including price of clay, the major raw material required for the production obtained and depreciation of the machinery of the factory and including the direct manufacturing overhead expenditure after identification of such amounts. This had been one of the major reasons for the Corporation to operate at a loss for a longer period of time. The Corporation had not adopted any of the Costing Methods of Cost Accounting for the computation of this manufacturing cost.

(b) Diversification of Products

Eragama Tile Factory had been established in the year 1958. The attention of the Corporation had not been focused on diversification of products aiming at the target market to diverse the nature of the products to face the competitiveness and the timely requirements rather than engaging in the manufacture of flat tiles and ridge tiles during 60 years from that day up to the present day. The Corporation had been established with a view to accomplish the broad aims and objectives namely, clay and clay related production in Sri

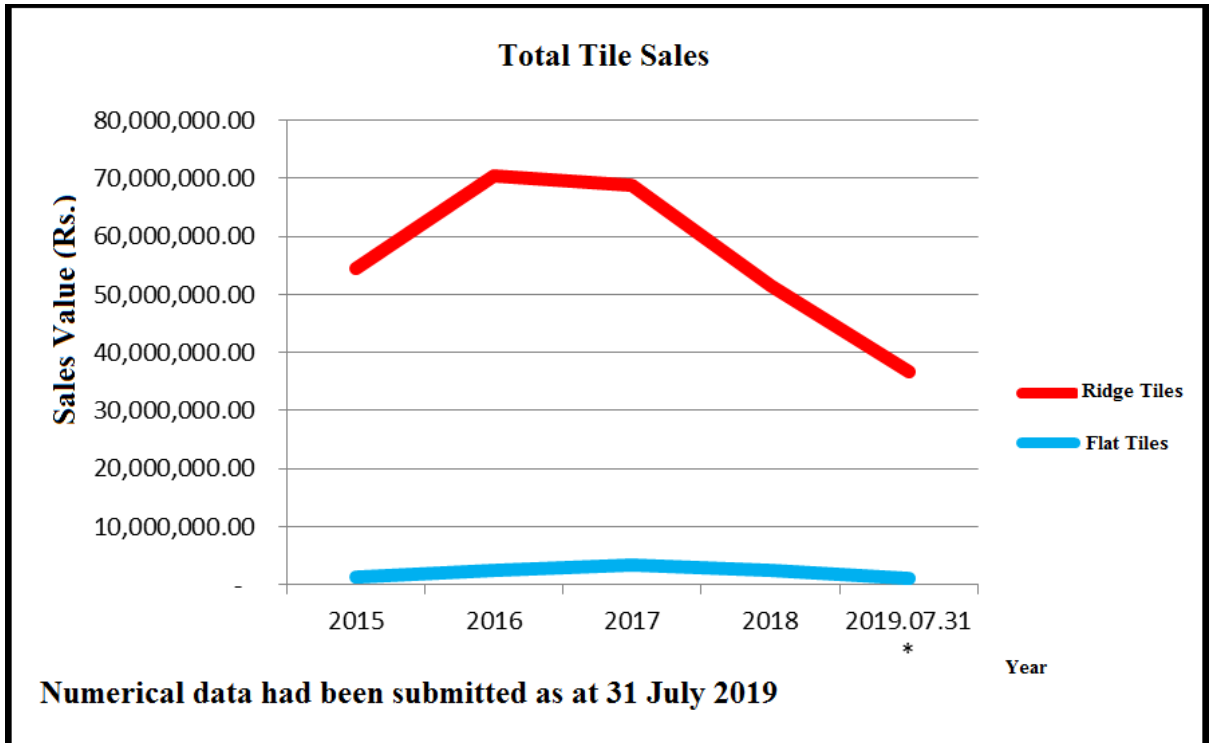
Lanka. The Governing Board of the Corporation, who accomplished the administrative and management role of the Corporation during the active period of sixty years, was failed to accurately identify the fundamental aims and objectives of the Corporation, social mission of the of the Corporation and to change the production pattern of it in compliance with the timely requirements and to manufacture new innovations. It had strongly affected the present inefficiency of the Corporation. The Corporation was not a competitive and a successful manufacturer within the market due to the failure of the Corporation to introduce new products in the Tile Industry according to the expectations of the People and to make appropriate changes accordingly and to direct the Corporation to manufacture clay-based products.

3.1.5 Marketing

(a) Evaluation of the sale of tiles in the Eragama Factory

This factory can be introduced as the one and only tile factory which had manufactured and sold tiles continuously during the entire period starting from the date when the Corporation started tile factories up to date. However, a pre-sales plan had not been prepared for the sale of tiles of the other tile factories as well as Eragama Tile Factory that are under the control of the Corporation and tiles had not been sold annually based on such a pre-sales plan. Accordingly, the sales of the flat tiles and ridge tiles manufactured in Eragama Tile Factory for the 04 previous and up to 31 July in the year 2019 are depicted in the following Table and the Chart.

Year -----	Flat Tiles -----		Ridge Tiles -----	
	Tiles	Rs.	Tiles	Rs.
2015	1424198	54,550,794	23930	1,335,915
2016	1720380	70,514,270	39974	2,433,455
2017	1531141	68,901,345	53518	3,478,670
2018	1145508	51,547,860	38349	2,492,685
2019.07.31 *	816585	36,746,325	17442	1,133,730



- (i) According to the aforesaid table and the chart, The value of flat tile sales of Eragama Factory was Rs. 54,550,794 during the year 2015 and it had increased up to Rs.70,514,270 during the year 2016. However, a tendency of gradual decline in the value of flat tile sales of the Corporation could be observed during the period of 2017 to 31 July 2019.
- (ii) The value of ridge tile sales in the year 2015 was Rs. 1,335,915 and the value of ridge tiles sales had increased gradually up to the years 2016 and 2017 and the sales value was Rs.3,478,670 in the year 2017. However, a tendency of gradual decline in the value of ridge tile sales of the Factory could be observed after the year 2017 and the sales value for the year 2018 was Rs. 2,492,685.

(b) Marketing through Sales Representatives

The Strategy of selling tiles through sales representatives had been adopted for marketing ties of the Eragama Factory. Accordingly, the post of Sales Representative had been offered to 07 persons from time to time during the

period of the year 2005 up to 2018 and 06 persons out of the 07 persons are selling tiles of the Corporation at present. In analyzing the total income earned through selling tiles of Eragama Factory during the period of 2018 to June 2019, it could be observed as per the following table that 76.88 per cent out of the total selling value of tiles in the year 2018 and 77.97 per cent out of the total selling value of tiles in June 2019 were the sales income earned through the sales representatives.

Name of the Sales Representative	Date of obtaining the Post of Sales Representative	Sales Income	
		Year 2018 Rs.	Up to June 2019 Rs.
M.A. Tile	2005.05.01	7,721,293	4,308,440
A.A. Kabeer	2005.05.01	6,337,840	5,610,156
M.I. Nagarthambi	2005.05.01	2,802,968	1,487,868
M.I. Meeran	2008.01.01	9,570,537	4,902,537
A.M. Haneefa	2015.12.01	1,121,700	-
S.M. Rukshan	2016.11.25	13,253,015	7,582,117
I.L.M. Rubaith Smile Motors	2018.03.05	740,987	-
Total Income earned by Sales Representatives		41,548,340	23,891,118
Total Sales Income of Tiles		54,040,545	30,639,952
Percentage of the Total Income earned by Sales Representatives out of the Total Sales Income of Tiles		76.88%	77.97%

In considering the aforesaid situation, it was observed that the appointment of local sales representatives engaged in the marketing field all over Sri Lanka to cover the other factories is a very significant factor.

(c) Granting discounts for the institutions in the Public Sector

The former Competent Authority had granted approval to provide a discount of 10 per cent on 20 July 2016 for 06 identified public institutions for the promotion of sales activities of the factories. However, those public institutions had not given a favourable response to the Corporation in that

regard. Accordingly, the marketing strategy could not be implemented for the marketing of tiles of the Factory. However, the attention of the Management had not been focused to adopt this marketing strategy to increase marketing of the Corporation based on the timely requirements and to market the product of the Corporation on the existing economic strength.

(d) Marketing of tiles on Discounts

In the marketing of tiles of Eragama Factory by the sales representatives, they had granted a discount of 5 per cent in the year 2016 and the percentage of the discount had been increased up to 15 per cent by the year 2018. The Governing Board of the Corporation had decided to reduce the discount granted for all the sales representatives by 5 per cent and to sell tiles to all the customers without a discount since the stock of tiles in this factory had been reduced with effect from 13 June 2019. Even though selling tiles to sales representatives and customers on a discount as mentioned above was one of the marketing strategies, it was observed that there is a possibility of increasing sales by introducing the products of the Factory to Architects.

(e) Weaknesses in marketing strategies of the manufactured tiles

Selling of tiles through sales representatives and through the provision of discounts are used at present as the exclusive marketing strategies for the Corporation and for Eragama Factory. A sales plan is not prepared annually for sales and it was further observed that latest marketing strategies are not adopted for sales promotions.

3.2. Factories, which had temporarily suspended manufacturing activities

Manufacturing activities of 04 tile factories, which are under the control of the Corporation had been temporarily suspended with effect from 25 January 2018 as per the instructions issued by the former competent Authority who carried out the administrative and operational activities of the Corporation. Mahiyanganaya,

Yatiyana, Uswewa and Bingiriya can be introduced as the 04 factories where manufacturing activities had been suspended temporarily. The main reasons for suspending manufacturing activities of these factories are mentioned below.

- (I) Sale of tiles was impeded due to the withdrawal of the decision on banning the use of asbestos taken by the Cabinet of Ministers in compliance with the policy decision of the Government.
- (II) The Corporation had to undergo financial encumbrances due to the collection of manufactured tiles as large unsold stocks.
- (III) Tiles had been manufactured by Sri Lanka Army and employees recruited on contract basis and as a result, tiles had been manufactured without maintaining higher standards and customers had rejected sold tiles.

Particulars on the capacity of the production of afore-mentioned tile factories where manufacturing activities had been temporarily suspended are as follows.

Factory Type of Tile Manufactured	Capacity Tiles (Per Day) -----			
	Mahiyanganaya	Uswewa	Yatiyana	Bingiriya
Flat Tiles 1	5,800	11,600	5,600	4,000
Flat Tiles 2	5,800	-	-	-
Sevana Special Tiles	5,800	-	-	-
New Sevana Tiles	5,800	-	-	-
Ridge Tiles	890	1,024	950	1,025
Castle Tiles	2,500	-		-
Sinhala Koku Tiles			3,000	2,500
Tile covered by Asbestos	-	1,024	-	2,500

3.2.1 Utilization of Machinery and other Facilities

(a) Requirement to service the Machinery

Since the manufacturing process was temporarily suspended over a period of one year from 25 January 2018 up to now, the machinery in factories were required to be serviced for the recommencement of the manufacturing process.

(b) Underutilization of Assets

According to Valuation Reports obtained by the Department of Valuation on the assets owned by the factories which had suspended the manufacturing process temporarily, the market price of assets owned by the factories aggregated to Rs. 156,171,000. As the manufacturing process of these factories was temporarily suspended from 25 January 2018, the said assets remained idle over a period of one year. Further, the assessed value of those assets had not been brought to financial statements. Details are given in the table below.

Factory -----	Date and Number of Valuation -----	Details of valued Assets -----	Value of Assessment ----- Rs.
Mahiyangana	2006.10.11 BADU/IN/2728	Lands, Buildings, Machinery and Vehicles	57,250,000
Yatiana	2011.10.04 MATHA/E/V/1084	Value of property in the factory premises	35,000,000
Uswewa	2007.07.21 RT/LM/3768	Lands, Buildings, Machinery, Furniture and Vehicles	26,500,000
Bingiriya	2011.05.11 KURU/IVA/2479/24 80	All assets of the factory	37,421,000
Total	-		<u>156,171,000</u>

(c) Lands not legally vested

According to the written evidences made available to Audit by the Head Office of the Corporation, lands of 75 acres, 01 rood and 34 perches in extent were belonged to 03 factories of which the manufacturing process was temporarily suspended. The legal ownership of those lands had not been vested in the Corporation up to July 2019. Further, action had not been taken to utilize the lands owned by the said factories for an investment purpose effectively. Particulars of those lands were as follows.

Factory -----	Document of confirmation of the Ownership -----	Extent of land -----		
		<u>Acres</u>	<u>Roods</u>	<u>Perches</u>
Yatiana	Plan bearing No.1/80 dated 21.10.1980	06	01	11.5
Yatiana	Gazette Notification bearing No. 13751 dated 06.09.1963.	21	02	05
Yatiana	Gazette Notification bearing No. 263 dated 29.04.1971	19	02	18.9
Uswewa	Plan No.අ.ඉ.ඊ. 413	16	03	29
Bingiriya	Plan bearing No. 1591 dated 19.03.1980.	03	-	17
Bingiriya	Plan bearing No. 1592 dated 19.03.1980.	-	-	9.5
	Advanced Tracing bearing No.3/63/458 dated 07.07.1978	07 ---	03 ---	23 ---
Total		<u>72</u>	<u>11</u>	<u>113.9</u>

(d) Disposal of Vehicles

In terms of Asset Management Circular No.01/2018 of 17 March 2018 on the “Non-financial Assets Management of the Government – Disposal of Motor Vehicles not in running condition” issued by the Ministry of Finance and Mass Media, all motor vehicles not in running condition should be disposed before 30 June 2018. Nevertheless, 11 vehicles not in running condition and remained at 04 factories of which the manufacturing process has been temporarily suspended, had not been disposed. Photographs of those vehicles appear in Annexure 03.

(e) Encroachment of Factory Premises

The lands owned by the roofing tile factory at Mahiyangana, had been encroached by the residents in the area over a long period. According to the written confirmations made available by the Head Office of the Corporation, it was confirmed that “there were more than 125 families as illegal occupants in factory premises while this problem remains over a period of 30 years”. The Management of the Corporation had failed to evacuate the said illegal occupants up to now while several court cases involving the Corporation and illegal occupants were pending at present.

(f) Assets of Factories given to External Parties

The employees deployed at the said roofing tile factories had been retired under the Voluntary Retirement Scheme (VRS) in the year 2012 while the lands and buildings owned by these factories had been handed over to the Government forces to manufacture bricks for “Sanda Hiru Seya” without entering into any legal agreement. Accordingly, it was observed that 16 buildings owned by the factories in Mahiyangana and Bingiriya were being used by the Air Force even up to now without offering any financial benefit.

(g) Utilization of Official Quarters of the Manager of Factory

The land named Wireless Estate where the Yatiyana Factory was situated, is a place maintained as a message center between England and Sri Lanka under the British Colonial Rule. The bungalow used until the English left Sri Lanka, was situated in the said land and subsequently, that bungalow has been used as the Government quarters of the Manager of Factory. At present, the said Government quarters with a historical value was not being used and it was observed that the building had fallen into decay. The Government quarters of Yatiyana Factory which were not used are shown in Figures 13 and 14.



Figure -13



Figure -14

3.2.2 Depletion of Clay Deposit for Manufacture

Clay in the deposit named “Aswedduma” from where the clay was obtained for Bingiriya factory has depleted and there had been a necessity of obtaining clay externally as the key material for the manufacture of new products.

3.2.3 Manufacture of Roofing Tiles

The total manufacture of roofing tiles in the factories closed down temporarily during the year 2017 had been 2,410,552 tiles while the said manufacture had declined to 182,308 tiles by the year 2018. Since the manufacturing process of factories was temporarily suspended from 25 January 2018, it was observed that no product had been manufactured during the year 2019. As the Government policy decision to ban asbestos from the year 2018 was withdrawn, the manufacture of roofing tiles as a substitute had declined by 2,228,244 tiles by the year 2018 as compared with the year 2017. As such, the Corporation had failed to carry out an efficient and effective manufacturing process after 25 January 2018 by using machines owned by the factories. The particulars of manufactures were as follows.

Year	2017	2018	2019
Total manufacture of roofing tiles	2,410,552	182,308	-

3.2.4. Marketing

The sale, manufacturing cost and gross profit of roofing tiles in 04 factories of the Corporation which had suspended the manufacture temporarily are shown in the table below.

Year	Sales Value R s.	Manufacturing Cost R s.	Gross Profit Rs.
2017	75,271,385	28,934,355	46,337,030
2018	16,115,499	9,334,090	6,781,409
2019	9,523,401	5,857,417	3,665,984
Total	100,910,285	44,125,862	56,784,423

(a) Sale of Roofing Tiles

The total sale of the year 2017 in 04 factories of the Corporation of which the manufacture was suspended temporarily amounted to Rs.75,271,385 while it had declined by Rs.59,155,886 or 78 per cent up to Rs.16,115,499 by the year 2018. The sale of roofing tiles as at 31 July 2019 amounted to Rs.9,523,401 while there was no increase in the sale of roofing tiles up to 31 July 2019 as compared with the year 2018.

(a) Determination of Manufacturing Cost, Sales Price and Profit of a Roofing Tile

The computation of manufacturing cost, sales price and profit of manufactures in the Corporation were examined. Accordingly, in the determination of price of a roofing tile manufactured at the Eragama factory, the sales price had been computed by adding a profit margin to a price determined without including the price of clay being the main material required for manufacture and depreciation cost of machinery. Based on the price of a roofing tile so manufactured, the sales price of a roofing tile manufactured by all the other factories had been determined. The price computed as mentioned above, had been determined as the sales price for other factories as well. As such, the said price had not been an effective sales price for other factories. Further, the main materials were not

received free of charge to other factories except Eragama and despite the fact that clay being the main material was excavated from the factory premises, it had to be mixed with another type of clay (yellow clay) to achieve the standard level. As such, an additional cost had to be borne in this connection as well. Despite a manufacturing cost of a roofing tile varied from factory to factory, same sales price has been used as mentioned above, thus the profit and percentage of profit of a roofing tile have been changed. Details appear in the tables below.

Flat Roofing Tile I

Factory	Flat Roofing Tile	Cost Rs.	Sales Price Rs.	Profit per Roofing Tile Rs.	Profit to Sales Price as a percentage %
Eragama	i	19.63	45.25	25.62	56.62
Uswewa	i	28.67	45.25	16.58	36.64
Mahiyangana	i	26.9	45.25	18.35	40.55
Yatiana	i	22.5	45.25	22.75	50.28
Bingiriya	i	31.82	45.25	13.43	29.68

Flat Roofing Tile II

Factory	Flat Roofing Tile	Cost Rs.	Sales Price Rs.	Profit per Roofing Tile Rs.	Profit to Sales Price as a percentage %
Eragama	ii	19.63	28.65	9.02	31.48
Uswewa	ii	28.67	28.65	-0.02	-0.07
Mahiyangana	ii	26.9	28.65	1.73	6.04
Yatiana	ii	22.5	28.65	6.15	21.47
Bingiriya	ii	31.82	28.65	-3.17	-11.06

Ridge Roofing Tile I

Factory	Ridge Roofing Tile	Cost Rs.	Sales Price Rs.	Profit per Roofing Tile Rs.	Profit to Sales Price as a percentage %
Eragama	i	21.92	65.25	43.33	66.41
Uswewa	i	33.4	65.25	31.85	48.81
Mahiyangana	i	29.95	65.25	35.30	54.10
Yatiana	i	35.35	65.25	29.90	45.82
Bingiriya	i	49.55	65.25	15.70	24.06

Ridge Roofing Tile II

Factory	Ridge Roofing Tile	Cost Rs.	Sales Price Rs.	Profit per Roofing Tile Rs.	Profit to Sales Price as a percentage %
Eragama	ii	21.92	45.95	24.03	52.30
Uswewa	ii	33.4	45.95	12.55	27.31
Mahiyangana	ii	29.95	45.95	16.00	34.82
Yatiana	ii	35.35	45.95	10.60	23.07
Bingiriya	ii	49.55	45.95	-3.60	-7.83

The manufacturing cost, sales price, the profit thereon and the percentage of profit of a roofing tile of 05 factories which carried out manufacturing process of the Corporation are shown in the Tables above. The sales price of a roofing tile for other factories has also been computed on the manufacturing cost of the Eragama Factory, thus it was observed that the columns of profit earned by the sale of a roofing tile manufactured by those factories had declined. Since a proper method was not adopted in determining the sales price of a roofing tile, the sales price determined was not an economical and effective price. Consequently, the sales price determined for the roofing tiles manufactured at factories of the Corporation, had been the reason for the continuous losses suffered by the Corporation.

(b) Gross Profit

The value of ridge roofing tiles, flat tiles, Sevana Special and Nawa Sewana roofing tiles of 04 roofing tile factories operated under the Corporation during the years 2017,2018 and up to 31 July 2019 had been Rs.75,271,385, Rs.16,115,499 and Rs.9,523,401 respectively. Accordingly, the total manufacturing cost and total sales income during the said period amounted to Rs.44,125,862 and Rs.100,910,285 respectively. Further, the gross profit earned by the Corporation from the sale of roofing tiles during the period of 02 years and 07 months amounted to Rs.56,784,423. If the sales price was determined according to proper methods in determining the price of the Corporation , this gross profit could have been increased.

(c) Rejection of Roofing Tiles sold

In the year 2017, a number of 87,650 flat roofing tiles and 1,250 ridge roofing tiles had been sold at Rs.4,825,600 to the Divisional Secretariat, Chavakachcheri in Jaffna District through the two factories of the Corporation at Uswewa and Yatiyana. Out of these roofing tiles, 39,200 flat roofing tiles and 412 ridge roofing tiles delivered by the Uswewa factory were not up to the standard and as such those had been rejected by the Divisional Secretariat, Chavakachcheri. The value thereof totalled Rs. 2,147,288. The Corporation had again provided 39,200 flat roofing tiles valued at Rs.2,116,800 to the Divisional Secretariat, Chavakachcheri by the date of audit in respect of the roofing tiles rejected. Consequently, a loss of Rs.2,116,800 had to be suffered by the Corporation due to the manufacture and sale of substandard roofing tiles in the year 2017.

3.2.5. Stock Balance

The particulars and explanations of the stock of roofing tiles existed at 04 factories as at the end of the years 2017 and 2018 and by 31 July 2019 have been shown in the Table and Photographs below.

Factory	Total Stocks (Roofing Tiles)		
	2017	2018	As at 31 July 2019
Uswewa	771,865	709,297	626,218
Mahiyangana	293,098	207,203	191,973
Yatiana	296,834	234,760	205,079
Bingiriya	140,096	97,631	69,917
Total	<u>1,501,893</u>	<u>1,248,891</u>	<u>1,093,187</u>

- (a) In the inspection of factories where the manufacturing processes have been suspended from the year 2018, it was observed that 191, 973 roofing tiles existed at the Mahiyangana factory as at 31 July 2019 were not up to the standard for sale. Further, it was observed in the audit field inspection that the said stock was piled up in the factory premises. As a result of the damage caused in piling up the roofing tiles and discoloured roofing tiles at bottom due to mud or soil, those roofing tiles could not be sold. Out of the said stock, 85,000 roofing tiles had been manufactured prior to the year 2012. The roofing tiles piled up in the Mahiyangana factory are shown in Figures 13 and 14.



Figure -13



Figure -14

- (b) Out of the stock of roofing tiles remained at the Yatiana factory as at 31 July 2019, 10 –15 per cent of 122,826 roofing tiles of Grade 1 had discoloured as they were exposed to elements in the yard of finished goods. As such, those roofing tiles could not be sold as Grade I roofing tiles. Even though there were 9,954 Sinhala Koku roofing tiles remained over several years, those had been rejected by the buyers and could not be sold. A number of 7,250 Sinhala Koku roofing tiles (No. 1) provided to a buyer one year ago and the roofing tiles rejected by

customers were among the said stock. The roofing tiles piled up are shown in Figures 15 and 16.



Figure - 15



Figure - 16

(c) The stock of roofing tiles in the Uswewa factory as at 31 July 2019 stood at 626,218. Those roofing tiles were exposed to the elements and as a result, a large number of discoloured roofing tiles had been piled up in the factory premises. Further, 45,002 roofing tiles manufactured after November 2016 were Third Grade roofing tiles and the Manager has said in the field inspection that the Third Grade roofing tiles cannot be sold. The roofing tiles piled up are shown in Figures 17 and 18.



Figure -17



Figure - 18

3.3 Factories closed down from a long Period

Out of the factories owned by the Corporation, 04 factories in Weuda, Elayapaththuwa, Oddusudan and Bangadeniya had been closed down from a long period. These factories have been located in 04 Districts so as to cover 03 Provinces

in Sri Lanka and the following reasons had attributed to the closing down of those factories.

- I. The rapid decrease in the consumer demand for roofing tiles
- II. Lack of raw materials for manufacture of roofing tiles
- III. Operating these factories from a long period at a continuous loss
- IV. Closing down the Oddusudan Factory due to the war situation prevailed in the North and East Provinces

Summarized details relating to closing down of factories have been presented by the following Table.

Factory -----	Capacity flat tiles (annually) -----	Date closed down -----
Weuda	3,700,000	19.01.2009
Elayapaththuwa	3,700,000	26.08.2009
Oddusudan	2,500,000	26.08.1990
Bangadeniya	3,700,000	22.03.2003

Out of the factories mentioned above, all assets except the lands owned by the Bangadeniya Factory had been sold by calling tenders on 17 August 2010. Presently, only the land owned by the Factory remains.

3.3.1 Utilization of Assets and other Facilities

(a) Legal vesting of Lands

According to documented evidence made available to Audit by the Head Office of the Corporation, there were lands of 63 acres, 02 roods and 16.7 perches in extent belonging to the said 04 factories which were closed down from a long period. The legal ownership of those lands had not been vested in the Corporation up to July 2019. Moreover, action had not been taken to utilize the lands owned by the said factories in a productive investment as well. The summarized details thereof, are given below.

Factory -----	Register of Confirmation of Ownership -----	Extent of Land -----		
		Acres -----	Roods -----	Perches -----
Weuda	Plan No.1932	09	01	31
Elayapaththuwa	Plan No.3652	33	02	07
Oddusudan	Plan No.3553	13	0	36.7
Bangadeniya	Plan No.1674	07	01	22
Total		<u>62</u>	<u>04</u>	<u>96.7</u>

(b) Underutilization of Assets

According to the valuation reports obtained from the Valuation Department relating to assets of factories closed down from a long period, the market value of assets of factories as at the date of valuation, totalled Rs.154,557,750. Moreover, the said assets had remained idle since the day they were closed down. Further, the assessed value of those assets had not been taken to the financial statements.

Details are given in the following Table.

Factory	Date of closing down of Factory	Date and Number of Valuation	Particulars of Assets valued	Assessed Value
-----	-----	-----	-----	----- Rs.
Weuda	19.01.2009	11.05.2011 KURU/IVA/ 2479, 2480	All assets of the Factory	100,400,000
Elayapaththuwa	26.08.2009	25.04.2011 PRATHIPA/ E33/02/3	Lands, buildings, machinery, motor vehicles and furniture	34,157,750
Oddusudan	26.08.1990	31.12.2012 MU/LM/42	Lands and buildings	20,000,000
Total				<u>154,557,750</u>

(c) Examination on Motor Vehicles

According to the financial statements of the Corporation, the value of motor vehicles owned by the Weuda and Oddusudan Factories totalled Rs.1,314,873. However, by July 2019, it was observed that there were no motor vehicles owned by those factories and that no motor vehicles were parked in the factory premises as well.

(d) Assets of the Elayapaththuwa Factory given to External Parties

The employees who were deployed in service in this tile factory had been retired in the year 2012 under the Volunteer Retirement Scheme (VRS) and the lands and buildings owned by the said factory had been handed over to the Army for the manufacture of bricks for the “Sanda Hiru Seya” without entering into a legal agreement. Accordingly, 06 buildings belonging to the Corporation had been handed over to the Army for use without any charge whatsoever. As such, the assets owned by the Corporation had not been utilized effectively in the activities of the Corporation.

(e) Demolition and Removal of Buildings of the Bangadeniya Factory

I Public tenders had been called for demolition and removal of buildings of the Bangadeniya Factory on 17 August 2010 and it had been recommended to award the said tender to the first applicant for Rs.30,100,000. Files and documented evidence whatsoever had not been made available as to whether the tenders were awarded relating to this recommendation and for the recovery of the said monies. As such, no information whatsoever could be examined or confirmed in Audit relating to demolition and removal of the said buildings and the recovery of monies. It was observed at the field inspection that the buildings were demolished and removed and that only the land remains.

- II. According to Cabinet Decision No.10/2423/425/004-1 of 20 October 2010, the Government had taken a policy decision to lease out the said Bangadeniya tile factory to a private investor. However, it was observed that the factory buildings and other equipment (except the land) had been sold by calling tenders, instead of taking such action. Moreover, written evidence for further examination thereon was not made available to Audit.

3.3.2 Leasing out Weuda Factory

A proposal had been obtained by the Corporation for implementing a hospital project by utilizing all assets including the land of 09 acres, 01 rood and 31 perches in extent owned by the Weuda Factory without following the Procurement Guidelines. A valuation report totalling Rs.136,735,000 had been obtained on 25 July 2019 for lands, buildings and machinery owned by the factory. Even though the administration of the Corporation had formulated agreements to lease out the said assets to a private company on the basis of obtaining a rental income of Rs.200,000 monthly for a period of 50 years, this project proposal could not be implemented as the land on which the factory is located, does not belong to the Corporation.

3.3.3 Re-opening of the Oddusudan Factory

- (a) Even though it had been proposed to establish a red clay factory in the Oddusudan area by the year 2016 budget proposals, the said activity had been abandoned half way due to financial difficulties of the institute and non-receipt of provisions from the General Treasury.
- (b) The attention of the Government had been drawn towards the re-commencement of this factory since the beginning of the year 2017 and the progress of the factory and project proposals had been subjected to discussion from time to time. At present, after the Ceramics Corporation came under the scope of the Ministry of Public Enterprise, Kandyan Heritage and Kandy Development, information was being collected relating to restructuring of the Oddusudan Factory under “Presidential Task Force – Development of Northern and Eastern Provinces”. The survey reports relating to settlement of lands of the factory had been obtained by 19 August 2019 and requests had been made for the valuation of property relating

to all assets belonging to the Oddusudan Factory. However, those activities had not been completed even by the date of Audit. Moreover, it was observed that all assets belonging to that Factory, remain idle without being used.

3.4 Regulation of the Functions of the Ceramics Corporation and the Social and Economic Benefits provided by the Corporation

3.4.1 Implementation of State Policies

- (a) In terms of the Cabinet Decision No.අම/10/2423/425/004 - 1 of 28 October 2010, it is mentioned therein that all factories belonging to the Ceylon Ceramics Corporation should be given out to private investors selected on lease basis for a period of 30 years, separately or joined. However, the Board of Control of the Corporation had not taken action to lease out the factories.

- (b) Cabinet approval had been granted by the Cabinet Decision No.අම/11/2068/553/018 -1 of 17 November 2011 for Recommendation (3) for which approval had been sought by the Cabinet Memorandum No. MSRED/2/CM/44 of 19 September 2011. As mentioned therein, the advance monies obtained for restructuring of the Corporation in the year 2012 by the Mineral Sands Limited should be settled from the remaining monies after releasing all responsibilities of the Corporation. Nevertheless, action had not been taken to settle the said monies accordingly.

- (c) Approval had been granted policy wise for implementation of recommendations of the report of the committee appointed for the study relating to restructuring by the Cabinet Decision No.අම/15/0602/012-1 of 01 June 2015 for the Cabinet Memorandum of 13 May 2015 presented by the Minister of Industry and Commerce. In terms of No.01 of the said sub-committee report, it had been decided to convert the Corporation into a Company under the provisions of the Companies Act. However, action had not been taken even up to now to implement those state policy decisions.

3.4.2 Contribution of the Line Ministry

The role of the Corporation, which has a long standing history, had been timely assigned to various Ministries based on state policies and requirements. Accordingly, at present, the Corporation has been brought under the scope of the Ministry of Public Enterprise, Kandyan Heritage and Kandy Development.

The Government had taken a policy decision and given instructions to lease out the factories belonging to the Corporation to private investors or an investor, separately or joined. The process of manufacture, operation and marketing was being carried out up to the present by using the factories of the Corporation to cover daily expenses due to non-vesting the legal ownership of the lands belonging to the Corporation, in the Corporation and failure in venturing of investors for obtaining these tile factories on lease basis.

Under the present circumstances, the Competent Authorities of the Corporation had made an attempt to operate the factories by safeguarding the assets belonging to these factories. However, the Board of Control had failed to steer the Corporation in compliance with the laws, rules and regulations of the Government due to encroachment of property, issues on manufacture and marketing, dearth of employees and financial difficulties. Accordingly, the direct intervention of the Ministry was required to clearly show the future path and measures of the Corporation and to guide the Corporation and it was observed that policy instructions should be obtained relating to the present situation of the Corporation on current requirements.

3.4.3 Human Resource Management

(a) Recruitment of Employees for the Corporation

In the event of implementing the Voluntary Retirement Scheme (VRS) for employees of the Corporation from 31 March 2012, five hundred and forty one persons were employed at the Head Office and 07 factories and 495 persons out of those employees had been paid compensation and retired from the service.

Subsequently, the Corporation had been operated by 46 persons of the permanent staff and a staff recruited on daily payment basis.

By 30 September 2019, thirty seven persons of the permanent staff of the Corporation had been employed in 06 factories including the Head Office. Moreover, the Competent Authority of the Corporation had recruited 38 employees by 30 September 2019 without prior written approval of the General Treasury and a formal Scheme of Recruitment, to an institution from which employees had been retired under the Voluntary Retirement Scheme.

(b) Recruitment of Employees on Casual Basis

In terms of a Letter submitted on 30 October 2018 by the Additional Secretary to the Ministry of Public Enterprise, Kandyan Heritage and Kandy Development, instructions had been given to suspend recruitments on permanent, temporary, casual or whatever bases, promotions, attachments or transfers, until further notice. However, the present Competent Authority of the Corporation had recruited 13 employees on casual basis by September 2019 and paid a sum totalling Rs.1,290,435 as salaries and allowances.

3.4.4 Focusing on Modern Manufacturing Methods

Even though 08 manufactories related to tiles and clay, belonging to the Corporation remain at present, the manufacture of 03 factories out of them had been discontinued and closed down. Moreover, manufacturing activities of 04 more factories had been discontinued temporarily on 25 January 2018. Only the Eragama Factory had continuously carried out the manufacturing process. The factories mentioned above had been established during the period from the year 1958 to the year 1980. The machinery, kilns, drying halls and technical equipment of those factories were outdated. In carrying out manufacturing activities by using the machinery belonging to these factories used in the manufacturing process for a long period, it was observed that repairs should be carried out frequently by now.

However, the Corporation had not taken action to use advanced machinery and accessories and modern technology for the tile industry by identifying the current requirements of the tile industry. It was observed that steps should be taken for diversification of products and introduction of modern technology in competing with present market conditions, thereby making it possible to introduce products based on current demand in the market efficiently with low cost and high quality.

3.4.5 Social and Economic Contribution

(a) Releasing a Portion of Land of the Corporation for a Playground

A playground was not available for the youth, members of youth clubs and sports clubs and for the employees of the Corporation of the village of Kudduvil in the area of authority of the Divisional Secretariat Division of Irakkamam. Accordingly, in consideration of the request made by the sports associations of the area, Divisional Secretary, Deputy Minister of Sports and the line Ministry, a land of 02 acres in extent of the extent of land owned by the Eragama Factory had been reserved in the year 2017 retaining the ownership of the Corporation as providing a playground is a public purpose. As such, the Corporation had contributed towards fulfilling the social responsibility of improving the sports talents of the youth in the relevant area.

(b) Contribution towards the Manufacture of Bricks for the Construction of the Sanda Hiru Seya

The Corporation had provided lands, buildings and raw materials from March 2012 for cutting of bricks required for the “Sanda Hiru Seya” which was being constructed in Anuradhapura by using the 04 tile factories, namely Eragama, Mahiyangana, Elayapaththuwa and Bingiriya belonging to the Corporation at present. The Corporation had contributed towards a social responsibility programme through officers of the Sri Lanka Army, Civil Security Force and the Sri Lanka Air Force, who were granted permission to be attached to the factories of the Corporation.

(c) Contribution towards the Purpose of Preservation of the Deeghavapi Cetiya

The Corporation had been selected to supply engineering bricks required for the purpose of preserving the Deeghavapi Cetiya through the Eragama Factory belonging to the Corporation, the only factory carrying out manufacturing activities presently, according to a request made by the Department of Archaeology. As such, the Corporation had taken action to supply tiles and bricks required for the constructions of temples of religious and cultural significance.

(d) Generation of Employment and Regional Development

These tile factories belonging to the Corporation, had been established so as to cover 08 Districts throughout Sri Lanka. It was confirmed by written clarifications obtained during the field inspection from the residents within the proximity of the factories that a significant contribution had been made towards the local economy, regional development and generation of employment by the said factories during the period in which the manufacturing process was being continuously carried out in these factories. Nevertheless, the above mentioned benefits are deprived of to the people at present, due to discontinuation of the manufacturing process in 07 factories belonging to the Corporation.

(e) Contribution of the Security Forces towards the Role of the Corporation

The staffs who were employed in the factories of the Corporation had been retired under the Voluntary Retirement Scheme (VRS) in the year 2012 on state policy decisions. It was observed that the Government Security Forces had greatly contributed towards safeguarding the property of the Corporation and continuous manufacturing of the Corporation with the retirement of a large number of staff from the Corporation. Accordingly, contribution of labour as well had been made by the Army Officers towards preventing encroachment of a large extent of lands belonging to the Corporation, minimizing the unfavourable effects of the Private Sector, providing security to factories and supplying firewood necessary for tile manufacture and for the activities of the tile factories as and when necessary.

3.4.6 Contribution towards achieving Sustainable Development Goals

Elimination of poverty, hunger and inequality, protection of the environment, improvement of accesses to health and education, peace building, justice, establishment of strong institutions etc. are expected from Sustainable Development Goals. There is a possibility of obtaining contributions towards facilitating the achievement of these objectives and goals from tile manufactories operating in 08 Districts of 07 Provinces. The Eragama tile manufactory in Ampara is the only manufactory owned by a Government institution in that area. Moreover, there is a possibility of eliminating poverty, hunger and inequality by providing employment opportunities, using products in society favourable to the environment and health and providing employment opportunities to carry out manufacturing activities obtaining natural resources (raw materials) existing in tile factories, favourable to health, through supplying manufactures to meet the market demands.

4. Recommendations

- (i) The guidance for deciding the role to be performed by the Corporation based on state policies should be provided by the direct intervention of the line Ministry in future relating to the operation of the Corporation at present.
- (ii) Action should be taken to protect all assets owned by the Corporation and to utilize them in an effective and lawful investment in a manner of enabling positive contribution towards the local economy and development, until the state policy decisions are made on current requirements and the manner of achieving.
- (iii) Eight tile factories, covering 08 Districts island wide and the land owned by the Bangadeniya Factory belonging to the Corporation had been located. Out of the lands owned by these factories, only the legal ownership of lands owned by the Mahiyangana and Eragama Factories had been vested in the Corporation. Even though an attempt had been made up to now to vest the legal ownership of lands owned by other factories, in the Corporation, they could not be vested. Accordingly, prompt steps should be taken to vest the

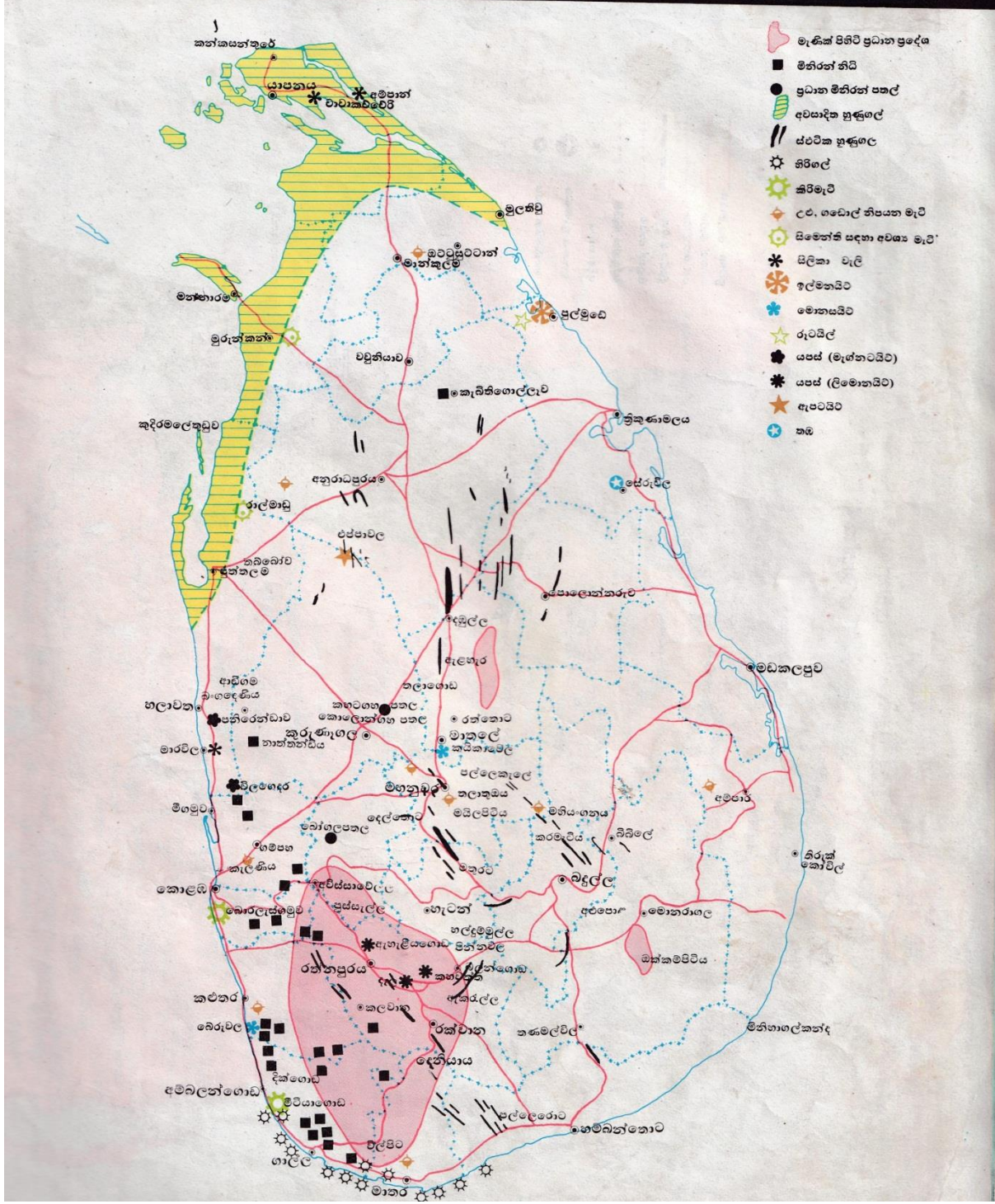
- (iv) Action should be taken to utilize the buildings and machinery and motor vehicles in running condition remaining idle in factories closed down for a long period, where manufacture has been temporarily discontinued.
- (v) Action should be taken to dispose of the motor vehicles identified to be removed from use.
- (vi) The Eragama Factory owned the clay deposit of ideal condition necessary for manufacture of tiles, labour and machinery. The employees of the factory and the residents of the area had a strong requirement in the continuous utilizing of the factory for manufacture. Action should be taken to carry out manufacture with diversification based on the existing market for manufacture of tiles in the factory and being the tile factory of the Corporation, presently earning income to cover all the expenditure

Sgd./W.P.C. Wickramaratne
Auditor General

W.P.C. Wickramaratne

Auditor General

22 December 2020



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19 - රූපය



25 - 5315 ලොරි රථය (මහියංගනය)

20 - රූපය



21 - 0304 ත්‍රීවිල් රථය(මහියංගනය)

21 - රූපය



17 - 5110 ජීප් රථය (මහියංගනය)

22 - රූපය



ලෝඩරය (මහියංගනය)

23 - රූපය



ස්කැව්ලරය (මහියංගනය)

24 - රූපය



21 - 0303 ත්‍රීවිලරය (යටියන)

25 - රූපය



36 ශ්‍රී 8145 මැක්‍රොරය (උස්වැව)

26 - රූපය



(උස්වැව)

27 - රූපය



11 ශ්‍රී 8841 කාර් රථය (උස්වැව)

28 - රූපය



ජීප් රථය (බිංගිරිය)

29 - රූපය



මැක්‍රොරය (බිංගිරිය)

