

**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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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 on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 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.

## 1.4 Audit Scope

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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 skepticism 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, misrepresentations, or the override of internal control.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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 Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statement

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### 1.5.1 Internal Control over the Preparation of Financial Statements

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

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

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Audit Observation	Comments of the Management	Recomendation
<p>In accordance with paragraph 51 of Sri Lanka Accounting Standard 16 due to non-review of the useful life time of the items of property, plant and equipment which have been fully depreciated but currently in use cost amounting to Rs.4,463,964 for 02 vehicles had been stated in the accounts at historical cost and the estimated error about the lifetime of the assets had not been revised according to Sri Lanka Accounting Standard 8 and the correct capacity value was not shown in the financial statements.</p>	<p>That the necessary steps will be taken to start the assessment work.</p>	<p>Fully depreciated assets should be revalued and accounted for at fair value.</p>

### 1.5.3 Accounting Deficiencies.

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
(a) In calculating the cash flow generated from operating activities in the cash flow statement, the income tax expense of Rs. 10,724,585, which had not been paid during the year, was recorded as payments for the year and the increase in trade and other receipts was Rs. 20,202,989, but it was shown as Rs. 5,727,328.	That these mistakes are corrected and the accounts of the year 2022 are submitted.	Action should be done according to the answer.
(b) Out of the total debtor balance of Rs.33,779,005, only a doubtful debtor allocation of Rs.1,688,950 was made, but no allocation was made for the unidentifiable debtor balance of Rs.25,925,739.	Although letters have been sent to the debtors to confirm the balance, no reply letters have been received and the decision of the Board of Directors is being taken in this regard.	Adequate provision should be made for unrecoverable balances.
(c) An annual survey had not been carried out regarding the closing stock of Rs.238,256 and property, plant and equipment of Rs.807,440,987. The value of the limestone stock of 25,750 cubic meters had not been calculated and included in the financial statements and no annual survey was conducted in this regard.	To carry out this kind of survey, a huge cost has to be incurred and the corporation does not have enough money to bear such financial cost.	Actions should be done according to The circulars and Financial Regulation.
(d) Although the total value accounted for 3 types of assets included in the property, plant and equipment of the corporation is Rs.10,113,706, according to the fixed assets register, the total value of those assets was Rs.6,518,682, therefore there was a difference of Rs.3,595,024.	The reason for the difference is the value of assets for which information cannot be found.	Action should be done to correct the asset register.

#### 1.5.4 Consolidation

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The Corporation had invested Rs.1,083,618,910 in Lanka Cement Company. Accordingly, although the corporation owns 62.45 percent of the share capital of Lanka Cement Company, a company managed by the corporation, the corporation had not prepared consolidated financial statements for the year under review.	That the Lanka Cement Company had not provided accounts to the corporation after the year 2016 and that the Ministry of Industry had informed us by letter number MI/RST/09/06/05 dated 26.05.2022 regarding the liquidation activities.	Consolidated financial statements should be prepared in accordance with accounting standards.

#### 1.5.5 Absence of written evidence for audit

<b>Item</b>	<b>Amount Rs.</b>	<b>Audit evidence not provided</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
debtors	7,853,266	Balance confirmation	Although letters have been sent to confirm the balance, but replies have not been sent.	Balance confirmation should be obtained.
Payable Balances	24,518,240	Balance confirmation	That there is a large amount of balances that cannot be identified separately from the balances and that the identifiable balances are settled in parts.	The accuracy of the expenses to be paid should be searched and settled.

#### 1.6 Accounts Receivable

##### 1.6.1 Cash Receivable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
In the year 2003, 2011, and 2015, due to non-repayment of loans due to the sale of cement on credit basis and not	That the instructions have been given to the Accounts section regarding settlement	Arrangements should be made to settle the debtor balances.

paying the payment of losses incurred to the corporation, sufficient actions had not been taken to settle the balance of Rs.14,316,638 in relation to 12 cases assigned to external parties.

of debtor balances but no action has been taken.

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

reference to laws, rules, regulations etc	Non-compliance	Comments of the Management	Recommendation
(a) Public Finance Circular No. 01/2020 dated 28 August 2020 and F.R. 371 (2)	Although an Accounts Officer can give an interim advance up to a maximum of Rs.100,000 on one occasion only to officers of staff status for a particular task, the Accounts Officer of the Corporation himself had obtained an interim advance of Rs.660,000 on 8 occasions.	That this money has been taken for the expenses of traveling to Kankasanture from time to time to remove and clean unusable materials from the Kankasanture cement factory premises.	Advances should be given in accordance with circulars and financial regulations.
(b) Financial Regulations 135	The accounting officer should delegate his work in general or in respect of individual transactions according to the organizational structure of the corporation. But the corporation had not made any transfer of powers for the year 2021.	That there are not enough incumbent employees to make a delegation of authority.	Delegation of authority should be done for the existing officers.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 44,642,491 as compared to the corresponding surplus of Rs. 40,718,566 for the preceding year, thus observing an improvement of Rs. 3,923,925 in the financial result. This growth was mainly due to the increase in lease rental income and the decrease in financial expenses.

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) In the year 2021, the total surplus before tax was Rs.44,642,491. Also, an amount of Rs 58,000,000 was invested in fixed deposits during the year. But for the year under review, Rs. 6,709,944 has to be paid as income tax, but the income tax had not been remitted to the Inland Revenue Department until April 2022.	That the taxes will be paid in the month of June 2022.	Taxes must be paid in due time.
(b) Since the two oil tanks and pipe systems in Kankasantura belonging to the corporation had been given to the Ceylon Petroleum Storage Terminal State Company without entering into a written agreement, the corporation had not been recovered the amount of Rs. 184,680,000 so far.	Efforts are being made to resolve this issue and due to the current situation in the country, it is practically impossible to request this money at this time.	Action should be taken to recover these arrears.
(c) Agreement No. 495 signed on 23 August 1996 between the corporation and Puttalam Cement Company Limited, which the current Siam City Cement Company Limited, agreed to lease the Aruvakkalu limestone land for 50 years on the basis of annual fixed rent and was signed on 07 November 2019 an additional lease agreement No. 268 had increased the lease rent income to US\$ 319,118 from the year 2019 based on the twelve percent	After the line ministry was informed about this, a complaint has been made to the Criminal Investigation Department about the financial irregularity and the complaint was being investigated and the Inspector General of Police was met about the delay in the investigation.	The Attorney General and the Line Ministry should have been consulted before signing the agreements, and the agreements should have been signed after obtaining approval.

lease rent increase. However, the Corporation has not been able to reach a decision regarding the recovery of the annual rent lost from the first agreement from 1993 to 2018 and the Attorney General's approval for the additional lease agreement has not been given as of the date of this report.

- (d) The Galle Unawatuna Kesbepana land worth Rs.1,200,000 had been acquired by the Habaraduwa divisional secretary for the construction of sixty houses damaged by the tsunami and the corporation had not been able to get any money related to it until now.

The corporation must act without delay to obtain the compensation due it.

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### 3.2 Operational inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Established by the Industrial Corporation Act No. 49 of 1957, the vision of the Sri Lanka Cement Corporation is to provide guidance and leadership for the development of the cement industry in Sri Lanka and its mission is to ensure adequate supply of quality cement and other cement related products to meet the needs of the country. But at present the corporation does not manufacture cement or any cement related products. The corporation's sources of income are the lease of the 5,164-acre Aruwakkalu limestone deposit, the lease of 12 acres of 3 rood 3 perches in Palavi and the</p>	<p>Sri Lanka Cement Corporation had 03 factories and Ruhunu and Puttalam cement factories were privatized in 1993 and Kankasanthura cement factory was completely inoperative due to the war situation in 1990, from time to time there were losses from cement related production activities and cement import and sale activities, and for the development of the cement industry, the necessary work for the re-establishment of a packaging factory was started under the new management. and reports have been prepared for that. Due to the lack of initial</p>	<p>It should be done in such a way that the basic objectives of the establishment of the corporation are fulfilled as well as in such a way as to get maximum benefit from the natural resources owned by the corporation.</p>



89.07 perches of land in Kollupitiya by running a car park. In the year 2021, that income was Rs. 65,256,215. But for 13 officers attached to the corporation, an annual expenditure of Rs. 19,983,648 is spent in administrative expenses including salaries and allowances for the above work. That expenditure was about 31 percent of the total rental income.

- (b) The Kollupitiya land of 89.07 perches owned by Sri Lanka Cement Corporation had been mortgaged to the Bank of Ceylon in 2008. The loan amount was restructured to Rs.97,700,000 in 2017 and the remaining balance of the loan as of 31 December 2021 is Rs.58,700,000. Although an interest amount of Rs.5,511,774 was paid in the year 2021 for this loan amount, the rental income of the year from leasing the said land was only Rs.4,893,331. As of the date of this report, the procurement of this land with a very high commercial value worth Rs. 735 million, for starting a mixed investment project as per the Board of Directors decision dated September 29, 2021, had not been completed. Accordingly, the corporation had failed to use this property for effective investment.

- (c) To start a joint project with Ceylon Mineral Sand Company for the top soil layer and excavation of the land with high value heavy

capital as well as the increase in cement prices in the world market, the increase in shipping charges, and the rapid depreciation of the rupee, the corporation has been temporarily stopped pending the resumption of the project.

This land is a land of high commercial value and the implementation of a mixed investment effective project should be done with the approval of the Urban Development Authority Act and the necessary procurement activities are being carried out to find a suitable investor and Keeping the land clean until a suitable investor is found is to be done according to the regulations of the Municipal Council Ordinance Act, so for a short period of 03 months permission has been given to park vehicles temporarily for various organizations and thus the corporation is getting income. That sufficient information cannot be obtained by comparing the bank loan interest with the income earned by providing temporary parking.

The letter of the Secretary of the Ministry of Environment dated 07.02 2022 , it has been mentioned that the General Manager of Ceylon Mineral

The property owned by the corporation should be used for productive investments.

In order to get maximum benefit from the natural resources owned by the corporation, other mineral related institutions should be

mineral material Aruwakkalu Limestone deposit in the period of 2021 to 2025, and the preparation of agreements with the relevant parties for that purpose from June 2020 to December 2021. Although planned to be completed over a period of 1½ years, the project could not be started till the date of this report.

- (d) It was decided by the Cabinet Paper No. AMP/21/0175/320/004 and dated 16 February 2021 to remove the unusable materials from the Kankasanthura cement factory, whose production activities were stopped due to the war in the country, and to clean the factory premises. Simultaneously, as per Cabinet Decision No. PFD/PMD/01/CM/2021/041 and dated 08 February 2021, prepare item lists of scrap iron and metal in the factory and determine the value of removable building models, machinery and scrap metal. It was decided to appoint a technical evaluation committee. But those tasks have not been completed till now. Although 13 years have passed since the end of the war, the corporation has not been able to contribute to the local economy by starting the production activities of the factory and taking full advantage of the resources owned by the corporation.

Sand Corporation has informed that the land with mineral sand in Aruwakkalu is no longer needed, but no notice has been given to the corporation.

That the report submitted by the committee appointed according to the decision of the Cabinet has been prepared and handed over to the Ministry. That it contains the report prepared on the machinery and scrap iron in the factory premises as well as the engineering report related to the buildings, that the name of the Chairman has been approved by the Board of Directors dated 29.04.2022 according to the notification made by the Line Ministry to send an officer representing the institution as a member of the Technical Evaluation Committee to implement the tender process.

looked into for the implementation of the project.

The property owned by the corporation should be used for productive investments.