Ceylon Ceramics Corporation - 2011

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Ceramics Corporation. as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards .

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard 18	The motor vehicles, furniture and equipment, well and tank, electricity supply and tools and tile moulds valued at Rs.18,579,229 of the factories at Weuda, Eragama, Uswewa, Elayapattuwa, Mahiyangana, Yatiyana and Bingiriya had been fully depreciated. Nevertheless, action had not been taken in terms of the Standard to revalue them.

1:2:2 Accounting Deficiencies

The following observations are made.

(a) The balance of the defective stocks as at 31 December 2011 totalled Rs.283,409 and that balance of stocks had been omitted in the final accounts.

(b) As compared with the final account of the preceding year revealed a difference of Rs.25,345,025 in the opening balances of the accounts for the year under review.

(c) Purchases amounting to Rs.453,199 made in the preceding year by the Corporation had been posted as the purchase of fixed assets in the year under review. The sum of

Rs,187,484 spent in the year under review for the purchase of machinery and equipment for the Eragama Factory had been posted as purchases in the year 2012 instead of being posted to the accounts of the year under review.

(d) The unidentified income balance amounting to Rs.50,650 under the sundry income of the year under review had been credited to the Profit and Loss Account.

1:2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed during the course of audit are given below.

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	Public Enterprises Circular No. PE1/000/Donation dated 20 December 1990	If Public Corporations and Boards make donations, approval of the Cabinet of Ministers should be obtained irrespective of the financial value of donations. Contrary to that stipulation, a donation of Rs.20,000 had been paid by the Corporation to the Pre-schools Concert held with the participation of the Ministry of State Resources and Enterprises Development.
(b)	Employees' Provident Fund Act, No. 15 of 1958 – Section 10.	Action had not been taken to remit on the due dates, the contributions amounting to Rs.39,243,295 of the employees in the service of the Corporation for the period July 2010 to December 2011.
(c)	Public Enterprises Circular No. PED/12 of 02 June 2003	(i) Even though the approval of the Salaries and Cadre Commission should

Section 9.2	be obtained for the cadre and register the cadre in the Department of Public Enterprises, it had not been so done.
	(ii) Even though expenditure of the line Ministry should not be incurred by the Corporations/ Boards under its purview , in response to a letter of the Ministry of State Resources and Enterprises Development dated 27 March 2011, the Corporation had paid a sum of Rs.50,040 for the supply of lunch to the participants of the May Day Rally held in the year 2011.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operating result of the Corporation for the year under review amounted to a net deficit of Rs.104,172,501 as compared with the corresponding deficit of Rs.77,259,222 for the preceding year. As such a deterioration of the financial result by Rs.26,913,273 for the year under review as compared with the preceding year was indicated.

In view of the inadequacy of the sales value to cover the cost of sales in the year under review as well a gross loss was indicated and the gross loss amounted to Rs.86,594,715 while the gross loss for the preceding year amounted to Rs.55,453,982. The gross loss as compared with the preceding year indicated a deterioration by 57 per cent. Similarly, the sales income for the year under review, as compared with the preceding year had decreased by Rs.34,554,042 or 20 per cent.

3. Operating Review

3:1 Performance

The following observations are made.

(a) The Corporation has 08 tile factories and all the factories maintained in the year had incurred losses. The profit and loss status of the factories during the 05 preceding years had been as follows.

Tile Factory	Surplus/(Deficit) for the year in Rupees Millions				
	2011	2010	2009	2008	2007
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	Rs.	Rs.	Rs.	Rs.	Rs.
Bangadeniya	(0.48)	(0.96)	(0.43)	(0.15)	(12.44)
Weuda	(11.06)	(11.06)	(18.59)	(18.45)	(10.40)
Elayapattuwa	(29.41)	(20.69)	(25.45)	(18.52)	(0.49)
Bingiriya	(6.84)	(7.47)	(7.39)	(5.66)	(7.042)
Mahiyangana	(20.98)	(15.46)	(12.39)	(14.10)	(130.93)
Yatiyana	(14.38)	(12.07)	12.26	(11.37)	(12.35)
Uswewa	(17.13)	(13.80)	(14.17)	(10.59)	(2.80)
Eragama	(4.15)	3.83	20.50	26.31	30.16

(b) According to the financial statements presented the number of units of tiles, bricks and the other materials estimated for production in the year under review had been 11,644,890 and the actual number of units produced amounted to 4,223,747 and represented 36 per cent. As such 64 per cent of the objective had not been achieved.

(c) The following differences were observed at a reconciliation of the estimated sales and the actual sales of the factories for the year under review.

(i) Out of the 08 factories of the Corporation, 07 had failed to achieve the expected sales. The percentages of non achievement ranged between 36 per cent and 86 percent.

(ii) Adequate steps had not been taken for the promotion of sales of the factories. There were not sales and distribution expenses of 06 factories and the sales and distribution expenses of the Elayapattuwa Factory amounted to Rs.1,063,243.

(d) Even though the Corporation had expected profits and losses as follows, there were large differences between the actual profits and losses.

(i) All the factories of the Corporation had incurred losses in the year under review.

(ii) Even though 05 factories had expected profits in the year under review, the Corporation had failed to achieve that objective.

(iii) Even though the Eragama Factory had made profits in the past 05 years it had incurred a loss of Rs.4.148 million in the year under review and that as compared with the expenditure represented a decrease of Rs.27.674 million.

3:2 Unsettled Balances

A sum of Rs.175,880,949 had been shown in the accounts as payable to the Department of Inland Revenue and the balance of the preceding year had been Rs.163,811,497. Action had not been taken to settle these amounts.

3:3 Management Inefficiencies

The following observations are made.

(a) Sums of Rs.22,375,917 and Rs.48,602,070 existed as at the end of the year under review as trade debtors and trade creditors respectively in relation to the Ceylon Ceramics Company. Even though the company had been closed down in the year 2002, necessary steps had not been taken to settle the balances.

(b) Even though the management of the Corporation had written off liabilities of the factories totalling Rs.4,906,258 in the year under review the approval for write off had not been obtained.

(c) It had not been possible to recover the festival advances amounting to Rs.12,550 of 20 employees of the Eragama Factory who are no more in service as well as the tile loans amounting to Rs.37,684 of 04 employees.

(e) It had not been possible to recover the festival advance balance amounting to Rs.2,550 of the Mahiyangana Factory relating to the period 1982 to 1987.

(f) It had not been possible to recover the festival advance balance totalling Rs.12,480 of 13 employees and the tile loan balance amounting to Rs.2,998 of one employee of the Uswewa Factory.

(g) Action had not been taken for the recovery of the trade debtors balance amounting to Rs.60,743 of the Head Office existing from the year 2008.

(h) Bangadeniya Factory

(i) Even though this factory had been closed down over 10 years ago, action had not been taken even up to year under review to settle the trade debtors balance of Rs.314,360 and the balance of Rs.1,476,854 receivable from the Ceylon Ceramics Ltd.

(ii) Taxes amounting to rs.13,363,260 had been credited to the Other Creditor Account, but action had not been to settle the account.

(iii) Action had not been taken even up to February 2012, to settle the electricity bills payable of the Bangadeniya Tile Factory amounting to rs.1,058,182.

(iv) Bangadeniya Tile Factory had been closed down with effect from March 2003, but stocks of tiles valued at Rs.744,165 remained in the tile factory premises even up to the year under review. The necessary steps had not been taken for the sale or auction or removal of those stocks.

(v) The Bangadeniya Tile Factory remain closed down after a period of about 10 years and the cost of its fixed assets as at 31 December 2010 totalled Rs.7,118,370. The bids for demolition and removal of all the buildings of the factory had been awarded after the elapse of 07 years, but the Corporation had failed even by the end of the year under review finalize this work. Even though bids had been awarded in the preceding year, the Corporation had not been able to achieve the objective.

(h) Action had not been taken even up to the year under review for the recovery of a sum of Rs.844,622 relating to the Elayapattuwa Factory from a private company remaining outstanding from years prior to the year 2008.

(i) Even though unidentified deposits of the Eragama Factory and the Head Office amounting to Rs.235,067 had been shown in the Bank Reconciliation Statements for the year under review, action had not been taken on the unidentified deposits.

(j) Even though the production work of the Weuda Factory had been suspended from 19 February 2009 action had not been taken to sell the finished stock balance valued at Rs.1,800,775 and the stock of clay valued at Rs.1,865,620 that remained therein.

(k) According to the stock verification reports of the factories as at 31 December2011, it was observed that certain factories had only small quantities of firewood while certain other factories did not have stocks of firewood. As such, it had impeded the maintenance of production work without interruption.

(l) Stocks excesses totalling Rs.572,884 exited at the Yatiyana, Mahiyangana, Weuda, Elayapattuwa, Bingiriya and Unwewa Factories of the Corporation. Such stocks had not been posted in the stock books.

(m) A stock shortage totalling Rs.30,939 at the Bingiriya Factory and the Head Office had been detected at the valuation of stocks as at 31 December 2011 carried out by the Corporation and no action whatsoever had been taken on that stock shortage.

(n) Payments totalling Rs.537,458 had been made as litigation fees, surcharges and losses resulting from inefficient management.

(o) The Corporation had failed to supply an order for 4,880 floor tiles placed by a private institution on 29 December 2010 and 960 floor tiles out of the quantity ordered only had been supplied. Even though that institution had requested in completion of the order within 02 weeks, it had failed to supply the goods even after the elapse of 02 months. As a result, a sum of Rs.117,600 had to be refunded on account of the goods not supplied.

3:4 Identified Losses

The following observations are made.

(a) Penal interest totalling Rs.32,873 had been paid due to the failure to settle the electricity bills of 06 factories of the Corporation on the due dates.

(b) Due to the failure to pay the gratuities to the officers of the Factories at Weuda, Bingiriya and Elayapattuwa on the due dates as specified in the Payment of Gratuity Act, surcharges amounting to Rs.48,912, Rs.19,035 and Rs.55,404 respectively had been paid.

(c) Surcharges amounting to Rs.1,700,064 had to be paid due to the failure to remit the contributions to the Employees' Provident Fund for the year under review on the due dates as specified in the Employees' Provident Fund Act.

(d) Overdraft interest totalling Rs.18,769 had been paid on the Bank overdrafts obtained during the year under review.

3:5 Going Concern of the Corporation

A problematic status exists with regard to the going concern of the Corporation and the details are given below.

(a) The profitability of the Corporation as compared with the preceding years, indicated a rapid deterioration. Details appear below.

Year	Surplus/(Deficit)	Improvement/(Diminution) of Profitability as Compared with the Preceding year
	Rs.	Rs.
2007	(20,429,672)	5,584,596
2008	(42,869,337)	(22,439,665)
2009	(63,010,358)	(20,141,021)
2010	(77,259,222)	(14,248,864)
2011	(104,172,501)	(26,913,279)

According to the financial statements presented, the deterioration of the profitability of the year under review as compared with the preceding year had been 34.84 per cent.

(a) Overdraft balances existed in the Bank Account over a number of years and that balance of the year under review amounted to Rs.1,094,525.

(b) The Corporation functioned without an approved cadre.

4. Accountability and Good Governance

4:1 Corporate Plan

Even though the Corporation had prepared a Corporate Plan, steps had not been taken to update the plan.

4:2 Action Plan

Even though the Corporation had prepared an Action Plan for the year under review, those objectives had not been achieved.

4:3 Audit and Management Committees

According to Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 the Audit Committees of the Corporation should meet regularly and follow up action should be taken to implement their recommendations. But the management of the Corporation had not taken to appoint the Audit Committees and hold meetings.

4:4 Budgetary Control

Significant variances between the budgeted income and expenditure and the actual income and expenditure exited thus indicating that the budget had not been made use of as an effective instrument of management control. The variances between the budgeted amounts and the actual amounts ranged from 5 per cent to 853 per cent.

4:5 Procurement Plan

The Corporation had not prepared a Procurement Plan.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

(a) Maintenance of Bank Accounts

(b) Investments

(c) Advances

(d) Debtors

(e) Maintenance of Factories

(f) Maintenance of Stock Records