Ceylon Ceramics Corporation-2012

1. Financial statements

1:1 Adverse Audit Opinion

In my opinion, because of the significance of the matters described in paragraph 1.2 of this report, the financial statements do not give a true and fair view of the financial position of the Ceylon Ceramics Corporation as at 31 December 2012 and its financial performance and its 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

The financial statements had not been prepared based on the new Sri Lanka Accounting Standards effective from 01 January 2012.

1:2:2 Accounting Deficiencies

The following observations are made.

(a) Even though the contributions to the Employees Provident Fund from July 2010 to March 2012 payable by the Corporation amounting to Rs.44,876,863 had been paid in the year under review by the Department of Public Resources Management, that had not been brought to account.

(b) Even though a sum of Rs.326, 936,590 payable by the Corporation to 497 officers retired from service in connection with gratuity, arrears of salary, cost of living allowances and compensation payable under the Voluntary Retirement Scheme had been paid by the Department of Public Resources Management in the year under review that had not been brought to account.

(c) Even though the provision for gratuity up to 31 December 2012 for the balance 43 employees amounted to Rs.5,755,597 a provision of Rs.69,859,212 had been made in the financial statements. As such an over provision of Rs.64,103,615 had been made.

(d) Provision had not been made for the damaged stock as at 31 December 2012 amounting to Rs.3,672,362.

(e) The value of the fixed deposits shown under the non-current assets had been understated by a sum of Rs.182,739.

(f) The interest income on the fixed deposits for the year under review shown under the other income in the income statement and the interest receivable on fixed deposits had been understated by a sum of Rs.169,828.

(g) Even though stock excess of Rs.1,421,951 and stock shortages of Rs.63,169 existed according to the verification of the closing stock of the year under review, those had not been adjusted.

(h) A stock of the Bangadeniya Factory sold in the year 2002 valued at Rs.744,166 and a stock of the Oddusuddan Factory closed down prior to 25 years valued at Rs.1,006,483 had been shown as closing stock in the financial statements.

1:2:3 Unexplained Differences

Twenty four motor vehicles valued at Rs.1, 345,063 shown in the Register of Fixed Assets were not available in the Corporation premises while the value of 13 motor vehicles had not been included in the Register of Fixed Assets as well as the financial statements.

1:2:4 Accounts Receivable and Payable

The following observations are made.

(a) Even though trade debtors and trade creditors balances of a company closed down in the year 2002 amounting to Rs.22,375,918 and Rs.48,602,070 respectively existed as at 31 December 2012, action had not been taken for the settlement of the balances.

(b) The unsettled water bill of the Mahiyangana Factory existing from the years prior to the year 2009 amounting to Rs.220,463 had not been settled even up to the end of the year under review.

(c) Bangadeniya Factory

(i) Even though the above factory had been closed down over 10 years ago, the trade debtors balance amounting to Rs.314,360 and the electricity bill amounting to Rs.1,058,182 had not been settled even by the end of the year under review.

(ii) Even though the Defence Levy, Turnover Tax, Value Added Tax and Goods and Services Tax totalling Rs.13,363,261 existing from the year 2008 had been transferred to another Creditors Account, action for the settlement of those had not been taken even up to the end of September 2013.

(d) A trade debtors balance of Rs.167,222 and festival advances recoverable amounting to Rs.262,167 relating to the Oddusuddan Factory remaining over a period of 25 years had not been settled.

(e) A sum of Rs.844,622 receivable from a private institution to the Elayapattuwa Factory since the year 2008 had not been recovered even by the end of September 2013.

1:2:5 Lack of Evidence for Audit

Expenditure amounting to Rs.3,129,246 incurred by the Corporation on the Deyata Kirula Exhibition in the year under review could not be vouched in audit due to the unavailability of relevant supporting documents.

1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed during the course of audit.

	Reference to Laws, Rules, Regulations, etc.	Value Rs.	Non-compliance
(a)	Section 8.3 of the Public Enterprises Circulars No. PED/12 of 02 June 2003.	50,000	Even though a donation of Rs.50,000 had been paid to the Puttalam District Foundation for the Commemoration of Protus Tissera, the approval of the Cabinet of Ministers for that had not been obtained.
(b)	Nation Building Tax, Act No. 9 of 2009.	5,056,579	Taxes totaling Rs.171,994,557 brought forward over a long period had not been remitted to the Commissioner General of Inland Revenue even by 31 December 2012.
(c)	Value Added Tax Act, No. 14 of 2002.	55,809,968	
(d)	Economic Service Charges Act, No. 13 of 2006	11,002,254	
(e)	National Defence Levy Act, No. 36 of 1995	38,406,286	
(f)	Goods and Services Tax Act, No. 34 of 1996	59,488,624	
(g)	Inland Revenue Act, No. 10 of 2006	2,230,846	

(h)	Western Provincial Finance Statute No. 6 of 1990	5,583,755	The Turnover Tax amounting to Rs.5,585,755 that should be remitted to the Western Provincial Commissioner of Revenue had not been remitted even by 31 December 2012.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a surplus of Rs.5,149,861 as against the deficit of Rs.104,172,501 for the preceding year. Accordingly, a substantial improvement of Rs.109,322,362 in the financial results for the year under review was indicated.

2;2 Analytical Financial Review

The following observations are made.

(a) Income amounting to Rs.10,608,298 received from the sale of scrap material of the factories at Mahiyanganaya and Bangadeniya affected mainly to increase the other income of the Corporation. The retirement of 497 employees in the year under review and the production done on the piece rate basis had affected the decrease of the cost of sales and the total expenditure by 50 per cent and 41 per cent respectively.

(b) Even though the Corporation incurred losses continuously up to the year 2011, it was observed that the Corporation earned profits in the year 2012 due to the reforms undertaken.

Year	2012	2011	2010	2009	2008	2007
Profit/(Loss) Rs.Millions	5.1	(104.2)	(77.3)	(63)	(42.9)	(20.4)

2:3 Analysis of Financial Ratios

	2012	2011	
Current Ratio	0.30	0.26	The Standard Current Ratio of safe institution should be 2:1
Loan Ratio	2.66	3.12	The Standard Total Assets to External Loan Ratio of a business institution should be 1:1. As a High Gearing Ratio is indicated, the possibility of that affecting the going concern of the Corporation cannot be ruled out.
Debtors Turnover Ratio	1.43	4.01	The debt recovery period had increased from 91 days to 255 days.
Number of Days of Debtors Turnover	255 Days	91 Days	
Stock Turnover Ratio	4.04	4.73	Time taken for converting the manufactured stocks to sales had increased from 77 days to 90 days.
Number of days of Stock Turnover	90 Days	77 Days	

3. Operating Review

3:1 Performance

The following observations are made.

(a) Seven Tile factories maintaining the production work of the Corporation exist and out of that 05 Factories had incurred losses in the year under review. The profitability of those in the 05 preceding years had been as follows.

Tile Factory	Profit/(Loss) for the year				
	2012	2011	2010	2009	2008
	Rs.	Rs.	Rs.	Rs.	Rs.
Weuda	(1,989,600)	(11,061,586)	(11,063,102)	(18,592,538)	(18,451,900)
Elayapattuwa	(12,068,069)	(29,414,618)	(20,687,770)	(25,454,863)	18,522,562
Bingiriya	(1,711,014)	(6,837,118)	(7,468,051)	(7,387,301)	(5,655,707)
Mahiyangana	3,978,017	(20,981,620)	(15,457,782)	(12,389,294)	(14,104,148)
Yatiyana	(4,751,744)	(14,382,036)	(12,071,994)	12,260,587	(11,365,675)
Uswewa	(8,985,412)	(17,127,924)	(13,800,090)	(14,171,282)	(10,592,693)
Eragama	22,720,384	(4,148,425)	3,825,335	20,504,151	26,311,561

(b) The estimated production of tiles, bricks and other material by the 05 operating factories in the year under review had been 9,573,366 and the actual production had been 3,112,050 units or 33 per cent of the estimated quantity. Details appear below.

Factory	Estimated Production Units	Actual Units Manufactured	Deficit Units
Eragama	3,544,902	1,515,803	2,029,099
Bingiriya	498,600	150,690	347,910

Mahiyangaaya	1,856,700	593,287	1,263,413
Uswewa	2,148,264	418,989	1,729,275
Yatiyana	1,524,900	433,281	1,091,619
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Total	9,573,366	3,112,050	6,461,316
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(c) Sale during the year 2012 of machinery of the Bangadeniya Factory closed down in the year 2002 for scrap value had generated an income of Rs.7,957,298. The factory land had been shown in the financial statements at the book value of Rs.60,000.

(d) The maximum and minimum stock levels had not been specified for all factories. A stock of firewood valued at Rs.6,965,913 remained with the Corporation as at 31 December 2012.

3:2 Management Inefficiencies

Ten cases had been filed in the Labour Tribunals relating to the respective factories and several other Courts by the retired employees of the Corporation against the Corporation in connection with the non-extension of their services and the arrears of gratuity. Those cases had not been disclosed in the accounts.

3:3 Identified Losses

The following observations are made.

(a) The Corporation had paid a surcharge of Rs.57,039 during the year under review due to the failure in paying the gratuity on the specified date in terms of the Payment of Gratuity Act to a former officer of the Bingiriya Factory.

(b) The Corporation had been required to pay a surcharge of Rs.1,700,000 due to the failure in remitting the Contributions to the Employees' Provident Fund on the specified dates in terms of the Employees' Provident Fund Act. Nevertheless, that had not been paid even up to 30 September 2013.

(c) Even though a sum of Rs.29,000 had been paid in the year under review through the Finance Manager of the Corporation to a private Company to link up the computers, such link up had not been done even up to 30 September 2013.

3:4 Going Concern of the Corporation

In view of the following factors it was observed that the going concern of the Corporation is uncertain.

(a) The net assets of the Corporation in the year 2011 and the year under review amounted to negative values of Rs.260,530,465 and Rs.247,380,646 respectively.

(b) The total assets to the total liabilities ratio of the Corporation for the year under review and the preceding year were 1:3.

(c) Out of the total staff of 540 of the Corporation, 497 had been voluntarily retired on payment of compensation.

(d) Out of the 09 Factories owned by the Corporation, only 07 Factories are in production at present and the balance 02 Factories had been closed down due to the following reasons.

Factory	Year of Closing Down	Reasons for Closing Down
Oddusuddan	1982	War situation
Bangadeniya	2002	Scarcity of Raw Material

4. Accountability and Good Governance

4:1 Corporate Plan

A Corporate Plan for the Corporation had not been prepared.

4:2 Action Plan

The Corporation had not prepared an Action Plan for the year under review.

4:3 Audit Committees

According to paragraph 2 of the Treasury Circular No. PF/PS/04(XII) of 28 August 2006, if Audit Committee of the Corporation is not in operation, such Committee should be established and ensure that the Committee meets regularly and take follow up action on the recommendation of the Committee. Nevertheless, the management of the Corporation had not paid attention to the appointment of the Committee even up to the end of the year under review.

4:4 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year under review.

4:5 Budgetary Control

A budget for the year under review had not been prepared. As such, the attention of the Corporation had not been paid to making use of a budget as an instrument of management control.

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) Accounting
(b) Utilization of Assets
(c) Debtors and Creditors Control
(d) Staff Management
(e) Achievement of Production Targets