Sri Lanka Cement Corporation – 2012

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1. Financial statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.2.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

1.2 Comments on Financial Statements

1.2.1 Consolidated Financial Statements

Even though the Corporation owned 62.45 per cent of the shares of the Lanka Cement Company Ltd, consolidated financial statements had not been prepared in accordance with the Best Accounting Practices.

1:2:2 Accounting Policies

Even though a Bank Overdraft of Rs.26,916,193 and a loan of Rs.40,000,000 had been obtained from a Bank by pledging the land situated in Kollupitiya and the income receivable from the lease of the limestone deposit to a private company for obtaining the Bank Overdraft and the loan, the information relating to that pledge had not been disclosed in the financial statements.

1:2:3 Accounting Deficiencies

The following observations are made.

(a) The buildings, furniture and motor vehicles costing Rs.5,096,661 fully depreciated but in use at present had not been revalued and brought to account.

(b) Two tractors, 03 trailers and 04 motor vehicles and the stock of spare parts costing Rs.5,719,771 purchased in the year 1990 and parked at the Cement Factory at Puttalam had not been shown as stocks in the financial statements.

1.2.4 Unexplained Differences

The following observations are made.

(a) Differences amounting to Rs.5,424,828 existed between the balances in the financial statement and the trial balance of the Jaffna Branch.

(b) According to the financial statements, the balance of the Trade and Other Payables of the Head Office amounted to Rs.114,103,084 whereas according to the age analysis, that amounted to Rs.113,031,656. As such the difference amounted to Rs.1,071,428.

1.2.5 Balances Receivable and Payable

The following observations are made.

(a) The Trade and other Receivables balance of the Corporation in the year under review amounted to Rs.839,200,063. Out of that, a sum of Rs.13,435,491 represented balances older than 02 years while a sum of Rs.35,307,781 represented balances older than 03 years.

(b) The Trade and Other Payables balance as at the last date of the year under review amounted to Rs.616,960,673. Out of that, a sum of Rs.5,286,079 represented balances older than 02 years while a sum of Rs.22,526,199 represented balances older than 03 years.

1.2.6 Lack of Evidence for Audit

The following items shown in the financial statements could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against the items to audit.

	Item	Value Rs.	Evidence not made available
(a)	Property, Plant and Equipment	547,395,912	The Register of Fixed Assets, Board of Survey Reports, Title Deeds
(b)	Stock	22,843,266	Stock Verification Reports
(c)	Trade and Other Receivable Balances	81,796,180	Confirmation of Balances and Age Analysis
(d)	Trade and Other Payable Balances	124,791,483	Confirmation of Balances and Age Analysis
(e)	Bank Overdraft	26,916,194	Confirmation of Balances and Age Analysis
(f)	Non-current Liabilities	563,973,594	Confirmation of Balances and Age Analysis
(g)	Current Liabilities	125,952,196	Confirmation of Balances and Age Analysis
(h)	Long Term Loans (Lanka Cement Company)	757,223,883	Confirmation of Balances and Age Analysis
(i)	Bank Balance	3,084,430	Confirmation of Balances

1.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	Section 2 of the Nation Building Tax Act, No.9 of 2009	Nation Building Tax amounting to Rs.6,850,515 that should have been remitted to the Commissioner General of Inland Revenue, had not been remitted.
(b)	Section 2.1 of the Value Added Tax	(i) The Output Tax relating to the Value Added Tax amounting to Rs.4,752,790

	Act, No.14 of 2002	payable during the year under review to the Commissioner General of Inland Revenue had not been remitted.
		(ii) Action had not been taken to effect the set off through the Commissioner General of Inland Revenue the input tax relating to the Value Added Tax receivable amounting to Rs.6,431,738.
(c)	Section 3 of the Financial Statute No.6 of 1990 of the Western Province	The Business Turnover Tax amounting to Rs.7,101,932 relating to the preceding years that should have been remitted to the Western Provincial Commissioner of Revenue had not been remitted
(d)	Financial Regulation 756	Even though a Board of Survey should be conducted in respect of all assets at the close of each financial year and reports should be furnished to the Auditor General, it had not been so done.
(e)	Treasury Circular No.1A1/2002/02 of 28 November 2002	A Register of Assets relating to Computers, Computer Accessories and Software had not been maintained in terms of the Circular.

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 deficit of Rs.70,382,929 as against the surplus of Rs.2,600,231 for the preceding year. As such, as compared with the preceding year, the operating result of the year under review had deteriorated by a sum of Rs.72,983,160 or 2,807 per cent.

2.2 Analytical Financial Review

The following matters had mainly affected the deterioration of the financial results for the year under review by a sum of Rs.72,983,160 as compared with the preceding year.

(a) The compensation of Rs.38,704,668 paid to an International Company in the year under review and the finance cost of Rs.3,458,588.

(b) The decrease of sales income for the year under review as compared with the sales of the preceding year by a sum of Rs.294,138,005 or 45 per cent.

(c) The total sales of the year under review and the cost of sales relating thereto amounted to Rs.361,933,397 and Rs.383,935,878 resulting in a gross loss of Rs.22,002,481.

3. Operating Review

3:1 Performance

The following observations are made.

(a) As the expenditure incurred by the Kankasanthurai Cement Concrete Production and Sales Division exceeded the total income, losses had been incurred continuously. The particulars of the losses of the five preceding years and the year under review are given below.

Year	Income	Expenditure	Loss
	Rs.Millions	Rs.Millions	Rs.Millions
2007	1.54	21.06	(19.52)
2008	17.92	24.78	(6.86)
2009	36.89	43.99	(7.10)
2010	27.33	27.36	(0.03)
2011	6.86	16.28	(9.42)
2012	32.46	38.12	(5.66)

(b) According to the Annual Action Plan, the sale of 121,000 metric tons of cement and earning an income of Rs.1,597,200,000 therefrom had been targeted. Nevertheless, the actual sales amounted to Rs.361,933,397 and as such only 23 per cent of the total expected sales had been achieved. The Corporation had failed to achieve the expected results of any of the months. As such the progress of the year under review had been at a very weak level.

(c) Even though the import of 400 cement containers per month, the construction of a new building in the land at Kollupitiya, the increase of construction of cement posts by the Kankesanthurai Factory up to 3,000 per year, and the construction of a new cement packaging factory at Kankesanthurai had been planned for the year 2012 for the enhancement of the performance of the Corporation, none of those targets had been achieved even by the end of the year under review.

3.2 Management Inefficiencies

The following observations are made.

(a) Sri Lanka Cement Corporation had leased out the limestone deposit at Aruwakkalu covering an extent of 5,352 acres to a private cement production company in the year 1995 for a period of 50 years for excavation of limestone for the production of cement. According to the agreement, the lease rent recoverable amounted to Rs.22,478,228 per year. According to the conditions of the lease agreement entered into, the Corporation did not have the right for the revision of the rent during the entire lease period of 50 years. Even though the Committee on Public Enterprises had discussed this matter at the meeting held on 16 August 2011 and directed the Corporation to revise the lease agreement, it had not been so done even by 31 August 2013.

(b) The lands about 150 acres in extent belonging to the Corporation situated in Puttalam, Palavi and Kalladi areas remained idle without being utilized for any productive purposes. Out of that, a land 09 acres in extent had been occupied by unauthorized persons by construction of houses. Such unauthorized occupation of lands could not be prevented as the lands overgrown with scrub had been left idling and unprotected.

(c) The cheque for Rs.1,656,000 given by a sales agent for 5,100 bags of cement supplied on credit basis in the year 2003 had been dishonoured. A case had been filed on 11 February 2008 for the recovery of the money together with legal interest. Even though the goods and property of the agent had been seized in accordance with the judgement, action had not been taken for the recovery of the money due to the Corporation over a period of 10 years at least by auctioning those properties.

(d) The total debtors balances which could not be recovered even by the end of the year under review due to the management inefficiencies such as the failure to obtain a guarantee commensurate with the amount of credit transactions in the appointment of agents, non-inclusion of credit limits in the agreement, non-inclusion of the methodology for the recovery of debts from the defaulting agents, uninterrupted supplies despite non-settlement of debts, providing bogus information for Bank Guarantees, failure to take disciplinary action against officers who approve credit irregularly and absence of follow up action on recoverable debtors amounting to Rs.44,467,236. A sum of Rs.3,832,137 out of that had been balances older than 09 years.

3.3 Uneconomic Transactions

The Corporation had not received any return up to the year under review for an investment of Rs.1,088,418,910 made in two private companies.

3.4 Payment of Compensation to an International Company – U.S. $ 300,000

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The Corporation had entered into two agreements in the year 1990 with an International Company established in the United States of America, for the import of clinker, a raw material required for the production of cement. According to the conditions of the agreement, the Company had furnished a pro forma bond for U.S.$475,000 and the Corporation had opened the Letters of Credit from a local Bank for the import of clincker.

The Company had failed to supply clinker in terms of the agreement and at the request of the Company the period of the Letters of Credit had been extended twice. Nevertheless a controversy had been created between the Corporation and the Company due to the action taken for the transfer the bond to the Corporation for the minimization of the loss that could be caused to the advancement of the Corporation and the decrease of production of cement due to non-supply of clinker and not allowing any such further requests made. Even though certain courses of action had been taken by both parties in this connection, those had not reached final conclusion.

In the meantime, the Line Ministry of the Corporation and the Department of Attorney General had, in the year 2002, with the concurrence of both parties and the intervention of the Multilateral International Guarantee Agency of the World Bank, had reaching the final conclusion for the payment of US$1.3 million to that company by the Corporation together with the privatized Puttalam Cement Company. Accordingly, the private company had paid a sum of U.S.$ 1 million and the amount payable by the Corporation had been delayed due to the financial constraints.

Nevertheless the Cabinet of Ministers had, on 01 November 2012, approved the payment of compensation from Treasury provisions for the purpose of preserving the International Image of Sri Lanka. Accordingly the a sum of Rs.38,704,668 equivalent to the US$300,000 payable to that company had been paid in the year under review by utilizing Bank Loan Facilities.

3.5 Identified Losses

The following observations are made.

(a) A stock of 6,036 bags of solidified cement at the BCC Stores and 8,295 bags of cement at the Peliyagoda Stores detected at a raid conducted by the Consumer Affairs Authority had been sealed. The Corporation had incurred a loss of Rs.9,100,000 from the solidified cement.

(b) Bank Overdraft interest amounting to Rs.3,395,384 had been paid on the Bank overdrafts obtained in the year under review due to the lack of a proper financial management.

(c) Import of 28,249 metric tones or 576,156 bags of cement had been imported in the year under review. Out of that 221 bags of cement had been misplaced and the value of bags of cement misplaced amounted to Rs.163,578.

3.6 Underutilized Assets

The Corporation had purchased a conveyor machine in the year 2011 at a cost of Rs.550,000 while a sum of Rs.27,429 had been spent on the additional accessories required for the Conveyor. The Conveyor remained idle without being used for any purpose whatsoever since the date of purchase.

3.7 Resources given to other State Institutions

Even though the resources of Public Corporations and Boards should not be obtained for the purposes of the Line Ministries, contrary to that stipulation, a motor vehicle purchased by the Corporation for Rs.4,800,000 had been deployed for use by the Line Ministry.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Even though the financial statements and the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days after the close of the financial year, the financial statements for the year 2012 had been furnished only on 15 August 2013 after a delay of 05 months.

4.2 Corporate Plan

Even though a Corporate Plan for the 05 years 2011 to 2015 had been prepared, that did not disclose an adequate attention for the achievement of the Mission,Vision and the Objectives included therein. Nevertheless the Corporation which had been the only producer and seller of cement in the Island in the past has at present totally stopped the production of cement and limited itself only to the import of cement. Even though the Corporate Plan and the performance should be reviewed on a timely basis, it had not been so done in the year under review.

4.3 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year 2012 in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

4.4 Staff Administration

The particulars of the staff of the Corporation for the year 2012 are given below.

Category of Employees	Number Approved	Actual Number	Number of Vacancies	Excess
Executive Grades	07	08	-	01
Non-Executive Grades	24	16	08	-
Others	45	38	07	-
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Total	76	62	15	01

Despite the excess of one unapproved post in the Executive Grades being problematic, the existence of 08 vacancies in the Non-Executive Grades and 07 other vacancies had been a challenge in the uninterrupted maintenance of the operations of the Corporation. The management had not taken action even by the end of the year under review for filling those vacancies.

4.5 Budgetary Control

Significant variances were observed between the budgeted figures and the actual figures, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. System and Controls

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

(a) Accounting
(b) Debts Receivable and Payable
(c) Fixed Assets Management
(d) Stores Control