Ceylon Ceramics Corporation-2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Ceylon Ceramics Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Ceylon Ceramics Corporation as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Fixed assets, vehicles, furniture and equipment, the well and the tank, electricity supplies and tools at Weuda, Eragama, Uswewa, Elayapaththuwa, Mahianganaya and Bingiriya factories and at the head office aggregating to Rs.5,645,426 had been fully depreciated , but action had not been taken to revalue them in terms of Sri Lanka Accounting Standard 18.

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

The following non compliances were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non Compliance
(a) Section 10 of the Employees' Provident Fund Act No.15 of 1958	Action had not been taken to pay the contributions of employees of the corporation for the year under review amounting to Rs.12,640,535 on due dates.
(b) Paragraph 9.2 of the Public Enterprises Circular No. PED 12 dated 2 June 2003	Approval of the Department of Public Enterprises had not been obtained for cadre.
(c) Management Services Circular No. 42 dated 14 December 2010	Incentives amounting to Rs.127,660 had been paid during the year under review, contravening the circular.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a net deficit of Rs.77,259,222 as compared with the deficit of the preceding year amounting to Rs.63,010,358. Accordingly, a deterioration of Rs.14,248,864 in financial results was observed as compared with that of the previous year.

During the year under review the sales value was not sufficient to cover up the cost of sales and as such a gross loss was shown. Accordingly, the gross loss for the year under review amounted to Rs.54,960,000 and the sales income had decreased by Rs.33,274,000 as compared with that of the previous year.

2:1:2 Profitability of Tile Factories

There are 8 tile factories belonging to the Corporation which 6 were running at losses during the year under review. Bangadeniya tile factory had been closed since the year 2003. The loss incurred by each factory for the year under review ranged from Rs.1 million to Rs.21 million and Eragama factory alone had earned a profit of Rs.3.8 million.

2:2 Operating Review

2:2:1 Performance

The following observations are made.

(a) According to the financial statements presented, number of tiles , bricks and other products estimated to be produced during the year under review stood at 13,240,152 units, but the actual production was 5,497,880 units representing 41.5% of the estimated production. The factories at Elayapathuwa, Bingiriya and Mahiyanganaya had not achieved the estimated amount by 84 %, 75 % and 64 % respectively.

(b) The estimated sales value at the Bingiriya factory during the year under review amounted to Rs.13,546,820 and the actual sales value amounted to Rs.2,171,919. Accordingly, only 16 % of the expected sales had been reached in the year under review. Eventhough the estimated loss during the year under review was Rs.4 million, the actual loss was Rs.7.5 million.

2:2:2 Management Inefficiencies

The following observations are made.

(a) The balances of trade debtors and trade creditors of the Lanka Ceramics Company amounting to Rs.22,369,177 and Rs.48,602,070 respectively existed since 1990 and action had not been taken to settle those balances.

(b) Necessary actions had not been taken to remove from books and destroy the damaged stocks aggregating Rs.317,586 which were lying at factories belongs to the corporation as revealed at the annual stock verification.

(c) The tile factory at Bangadeniya remained closed down from March 2003 and necessary action had not been taken to sell or remove the stock of tiles and clay valued at Rs.834,165 which were lying in the premises of the factory. The Chairman of the corporation had stated in his reply that necessary action would be taken to remove this stock from the books in the year 2011.

(d) The tile factory Bangadeniya remained closed down for about 7 years and the cost of fixed assets as at the end of the year under review aggregated Rs.7,118,370. Even though the tender has been awarded after 7 years for demolishing all the buildings in the factory, the Corporation had failed to complete this work even by the end of the year under review.

(e) The head office decides the selling price of tiles produced at the Bingiriya tile factory and the selling price had been less than the cost during the last 8 years. The loss incurred in each type of tile at the Bingiriya factory for the year 2010 was as follows.

Type of Tile	Cost	Selling Price	Loss per Tile
	Rs.	Rs.	Rs.
Flat Tile	23.42	21.03	2.39
Ridge Tile	36.55	32.80	3.75
Sinhala Ulu	21.95	19.80	2.15

The management had not made any attempt to improve the sale of tiles of the Corporation .

2:2:3 Identified Losses

The following observations are made.

(a) As action had not been taken to remit the Employees' Trust Fund contributions of officers of the Weuda Factory and the head office on due dates , surcharges amounting to Rs.550,558 and Rs.44,559 respectively had to be paid.

(b) As a result of not paying the electricity bills of 6 factories of the Corporation on due dates a sum of Rs.362,601 had to be paid as surcharge.

(c) The Corporation had to pay a surcharge amounting to Rs.13,524 as a result of not paying the previous year's tax on time for obtaining the license for the year under review for clay required for the production at the Mahiyanganaya factory.

(d) Overdraft interest aggregating Rs.840,877 had been paid during the year under review for the overdraft facilities obtained by the Corporation.

(e) The sum of Rs.944,622 receivable for the tiles provided to a private institution in the years 2007 and 2008 by the Ceylon Ceramics Corporation had become unrecoverable and it was agreed to pay that amount in 5 instalments from 30 July 2010 according to the instruction given by the Attorney General. The first instalment of Rs.50,000 had been paid to the Corporation on 31 August 2010, but the payment of the the balance sum of Rs.894,622 had been defaulted.

2:2:4 Transactions of Contentious Nature

Year end verifications of factories belonging to the Corporation observed an excess stock of Rs.738,279 as at the end of the year under review, but this stock had not been entered in the registers.

2:2:5 Unsettled Balances

The tax payable to the Department of Inland Revenue as shown in the accounts, amounted to Rs.163,811,497 and the balance of the previous year was Rs.161,888,212. Necessary action had not been taken to settle these balances properly .

2:2:6 Going Concern of the Corporation

A position mixed with problems is seen with regard to the Going Concern of the Corporation. Details are as follows.

(a) It was observed that the losses of the Corporation rapidly increase as compared with those of the previous years. Details are as follows.

Year	(Loss)	Comparison of loss with the previous year (Improvement) / Deterioration
	Rs.	Rs.
2006	(26,014,268)	(37,080,346)
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)

According to the financial statements presented, the increase in the deficit compared with that of the previous year was 22.61%.

(b) Overdraft balances in bank accounts continued for many years and this balance amounted to Rs.5,275,903 during the year under review. An interest of Rs.840,877 had to be paid in respect of this balance during the year under review.

(c) The corporation had been operated without an approved cadre.

2:2:7 Audit and Management Committee

Even though in terms of Section 2 of the Treasury Circular No.PF/FS/4(XII) of 28 August 2006, if the Audit and Management Committee is not in operation in the Corporations, immediate action should be taken to properly constitute them and implement recommendations of the Committee and to take follow up action. During the year under review, action had not been taken to hold meetings of the Committee.

2:2:8 Action Plan

The Corporation had prepared an Action Plan for the year under review, but, it was unable to achieve its objectives.

2:2:9 Budgetary Control

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

3. Systems and Controls

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

(a) Operation of Bank Accounts
(b) Investments
(c) Advances
(d) Debtors
(e) Factories
(f) Maintenance of Stock Books