

Lanka Building Material Corporation Limited - 2016

The audit of the financial statements of the Lanka Building Material Corporation Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, and 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditors’ Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the basis for disclaimer of opinion paragraph; however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

1.4 Basis for Disclaimer of Opinion

- (a) I was unable to access to the computer based accounting system of the company due to collapse of the system. As a result, I was unable to check the details in the ledger.
- (b) The Company had incurred a net loss of Rs.94,711,011 for the year ended 31 December 2016. The Company’s total liabilities exceeded its total assets by Rs.572,169,869 and Company’s current liabilities exceeded its current assets by Rs. 291,144,552 as at 31 December 2016. Further, it was noted that the gross profit margin of certain products of the Company were negative and due to non-payment of loans various parties have initiated legal cases against the Company. These events indicate that may cast significant doubt about the Company’s ability to continue as a going concern. However, these facts had not been disclosed along with the management plan to mitigating the factor in the financial statements of the year under review.
- (c) The Company has obtained loans, borrowings and advances from several government entities. However, relevant loan agreements or other supporting documents relating to loans, borrowings and advances were not furnished to audit to review the terms and conditions relating to such loans, borrowings and advances. Therefore, I was unable to satisfy myself about the fair presentation of loan balances, borrowings and advance aggregating Rs.304,855,185 as at 31 December 2016. Further, due to unavailability of said loan agreements and other supporting documents, I was unable to obtain sufficient

appropriate audit evidence to verify the completeness of finance cost amounting to Rs. 13,941,149 shown in the financial statements for the year ended 31 December 2016.

- (d) The Company had not maintained a fixed assets register or detailed schedules for property, plant & equipment. Hence, I was unable to confirm the accuracy of the valuation and the completeness of property, plant & equipment included in the statement of financial position amounting to Rs. 29,634,577 as at 31 December 2016.
- (e) The opening balances of land and building, office equipment and motor lorries of the year under review had been overstated by Rs. 1,409,710 , Rs. 305,801 and Rs.1,141,375 respectively.
- (f) The Company had not made provision for impairment for long outstanding receivables amounting to Rs. 48,543,442 shown in the financial statements as at 31 December 2016.
- (g) Miscellaneous staff advances amounting to Rs.3,895,553 had remained over three years without being recovered.
- (h) It was unable to ascertain the accuracy of the deferred income shown as government grant for compensation amounting to Rs.38,299,070 as at 31 December 2016,since agreements,detail schedules were not made available for audit.
- (i) It was unable to ascertain the accuracy of NBT payable,BTT payable,outstanding trade and other payable and VAT payable aggregating to Rs.177,741,633 as at 31 December 2016,since detail schedules,tax returns,tax computation were not made available for audit.
- (j) It was unable to ascertain the accuracy of trade debtors,VAT receivable and inventories aggregating to Rs.101,496,653 as at 31 December 2016,since detail schedules,tax returns and other sufficient and appropriate audit evidence were not made available for audit.
- (k) A debit balance of Rs 16,113,722 had been continuously brought to the statement of financial position as restricted reserve under the equity. However, I was unable to obtain sufficient appropriate audit evidence such as schedule, board resolution to verify accuracy of the balance.
- (l) I was unable to obtain sufficient appropriate audit evidence such as approval's, detail schedules regarding the prior year adjustments in retained earnings and cash flow statement amounting to Rs.60,948,661 as at 31st December 2016.

Owing to the above, I was unable to verify property, plant & equipment, trade and other receivables, deferred tax assets, loans and borrowings, trade and other payables, finance cost, related party transactions and disclosures in the financial statements. Hence I was unable to determine whether any adjustments were necessary in respect of the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2016.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion Paragraph, 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.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No. 07 of 2007, I state the following:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion:
 - I have not obtained all the information and explanations that were required for the audit as stated above. Hence, I do not express an opinion on these financial statements.