

## **BCC Lanka Limited – 2016/2017**

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The audit of financial statements of the BCC Lanka Limited for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, 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. My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board's Responsibility for the Financial Statements**

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The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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The sum of Rs. 36,219,153, the payable value added tax value stated in the financial statements did not agree with the balance recorded by the Department of Inland Revenue and the accountability and the accuracy of those liabilities could not be further examined due to non-availability of computations and tax reports.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the BCC Lanka Limited as at 31 March 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Report on Other Legal and Regulatory Requirements**

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

- (a) The basis of and scope and limitations of the audit are as stated above.
- (b) In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, I have obtained all the information and explanation that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company and the financial statements of the Company comply with the requirement of Section 151 of the Companies Act, No. 07 of 2007.

### **2.3 Receivable and Payable Accounts**

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Action had not been taken to settle a sum of Rs. 75,405,335, the payable balance of Accounts stated in the Statement of Financial Position as at 31 March 2017, for a longer period more than 10 years.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Company for the year under review had been a net profit of Rs. 21,687,424 as compared with the corresponding net profit of Rs. 3,206,572 for the preceding year thus indicating an improvement of Rs.18,480,852 in the financial result of the year under review as compared with that of in the preceding year. The increase in gross profit by Rs.5,061,311 and the increase in the other operating income by Rs.15,640,055 had been the major reason for the said improvement.

### 3.2 Analytical Financial Review

<b>Ratio</b>	<b>2016/2017</b>	<b>2015/2016</b>
Gross Profit Ratio	8	5
Net Profit Ratio	18	8

Even though the Net Profit Ratio of the Company had increased by 10 per cent, the Gross Profit Ratio had increased only by 3 per cent when compared with that of in the preceding year. Increase in the income by selling damaged assets and renting out of shops which do not directly contribute in the operation of the Company had majorly attributed for the said improvement.

## 4. Operating Review

### 4.1 Performance

#### 4.1.1 Function and Review

The contributions of the main products and the other income related to the year under review and the previous year are as follows.

<b>Manufactured Item / Revenue Object</b>	<b>Contribution</b>	
	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Rs.</b>	<b>Rs.</b>
Soap	43,847,227	35,770,989
Coconut Oil	88,642,648	59,945,350
Drum Sheet	110,185	4,930,994
Rental income	59,484,932	54,637,606

The following observations are made.

- (a) The income of the Soap Manufacturing Division had increased by 23 per cent in the year under review and the product distribution activities had been limited to several institutions in the Colombo, Kandy, Anuradhapura and Gampaha Districts though a continuous demand prevailed for soap products. Further, problems arose due to the inadequacy of the output of the Company and due to the problems in expanding markets owing to the difficulty in granting three months as the tenure of loans even though the buyers had requested a tenure of 03 months.
- (b) The income of the Oil refinery in the year under review had improved by 48 per cent as compared with that of in the preceding year and according to the reports issued by the laboratory, it was revealed that the quality of coconut oil manufactured in the Company is higher than the quality of the other types of coconut oil in the market.

The attention of the Management had not been focused on taking necessary action to improve the sale through propaganda campaigns or through marketing promotional methods.

#### **4.2 Management Activities**

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The following observations are made.

- (a) The Company had invested Rs. 10,000,000 to purchase shares of the Ceylon Hotel Corporation and any benefit had not been received for that investment even by the date of this Report.
- (b) The Company had mainly carried out functions such as manufacturing of soap, coconut oil refinery, sale of drum sheet and warehouse plant yard activities and the Company had stopped the sale of drum sheet and warehouse plant yard activities since the year 2016. However, the income of the Oil refinery had rapidly improved during the past 03 years. However, the land which costed Rs. 8,193,775,600 and which was in extent of 12 acres, 03 roods and 8.77 perches owned by the Company had vested to the government by the cabinet approvals and as a result, the Company had confronted problems on the existence of the Company. A Committee of Experts had been appointed by the Ministry of Public Enterprises Development for solving the problematic situation confronted by the Company and to provide a suitable land for the conduct of the Company and a Cabinet Memorandum had been prepared on restructuring of the Company according to the observations and recommendations issued by the Committee and Cabinet Memorandum was submitted in the year 2016 for getting the approval of the Cabinet of Ministers.

#### **4.3 Idle Assets**

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The following observations are made.

- (a) A soap noodle plant repaired by paying an amount of Rs. 2,234,226 in the year 2015 and used for manufacturing activities of soap had been kept idle without using it for manufacturing activities until the year 2018.
- (b) Machineries of Rs. 1,123,434 belonging to the Plant and Stocks of drum sheets worth Rs. 2,651,181 were remained idle since the year 2016 due to the termination of manufacturing of drum sheets from the year 2016.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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According to the Public Enterprises Circular No. PED/27 of 27 January 2015, every Government owned Company should present the financial statements to the Auditor General within 60 days after the close of the financial year. Nevertheless, draft financial statements for the year under review had been presented to the Auditor General on 11 July 2017 and revised Financial Statements had been presented to the Auditor General on 30 January 2018.

## **5.2 Tabling of Annual Reports**

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According to Paragraph 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, Annual Reports should be tabled in the Parliament within 150 days after the close of the financial year. Nevertheless, the Annual Reports for the years 2014/2015 and 2015/2016 had not been tabled in Parliament even at the date of this Report.

## **5.3 Audit and Management Committees**

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In terms of the Public Enterprises Circular No. 55 of 14 December 2010, Audit and Management Committee Meetings should be conducted once in every three months. Nevertheless, only one meeting of the Audit and Management Committee had been held for the year 2016/2017.

## **6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention should be focused on accounting due to non-revelation of carrying value of assets by the Financial Statements since all the other assets that have been fully depreciated, but were being used, except lands of the Company had not been revalued and had not been brought to accounts.