

## **BCC Lanka Limited -2021/2022**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the BCC Lanka Limited for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company

#### **1.4 Scope of Audit**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Accounts Receivable and Payable

### 1.5.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As on March 31, 2022, the balances of purchase advances, rent due from related parties and trade debtors were Rs.1,420,474, Rs.5,306,200 and Rs.138,676,697 respectively. The company had not taken action to recover the loan balances of Rs. 1,420,474, Rs. 1,961,088 and Rs. 1,167,208 respectively from 05 years to 12 years.	06 related institutions were informed about the balance amounting to Rs.1,420,474 and some letters were returned and some letters did not receive a response. A provision has been made for this figure from the 2016/2017 accounting years.	Action should be taken to settle the balances.

### 1.5.2 Payables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) For the loan amounting to Rs. 58,265,037 obtained from the Coconut Development Authority during the years 1985, 2002 and 2004 and Rs. 10,000,000 obtained from the Kalubovitiyana Tea Factory Ltd in the year 2003, the interest to be paid was Rs.57,165,429 and Rs.51,118,341 respectively. Due to the company's failure to settle this amount, an interest amount of Rs. 6,747,521 was added to the payable amount every year.	Although informed by letter dated 24/08/2022 to get an agreement to pay Rs.3,000,000 per month to the Coconut Development Board, no reply has been received so far. The initial loan amount of Rs.10,000,000 payable to Kalubowitiana Tea Company was paid on 21/06/2022 and no interest will be calculated after that date. The relevant interest for the past period will be discussed and paid in the future.	Action should be taken to settle the loans and interests.
(b) Although Rs. 4,508,696 has been shown as a balance payable to the Janatha Estate Development Board, such balance was not shown as per the accounts of the Janatha Estate Development Board. Hence, the accuracy of this balance could not be established in audit.	According to paragraph 6-9 of the Operation Manual for Public Enterprises, the Department of Public Enterprises was informed to act according to the instructions regarding the cut-off. Adjustments to this will be made in the 2022/2023 accounting year.	Action should be taken to settle balances or credit them to the Revenue.
(c) The Company had not taken action to settle the balances of Rate, turnover tax, Social security levy, Value Added tax and trade creditor balances, which totaled Rs.41,532,452 for more than 10 years.	Arrears for turnover tax, security tax, goods and services tax will be paid once the money is received from the land assigned to the Ministry of Justice.	Action should be taken to settle balance.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 124,752,054 and the corresponding profit in the preceding year amounted to Rs.43,600,867. Therefore an improvement amounting to Rs. 81,151,187 of the financial result was observed. Although the purchase cost of coconut oil increased by Rs.406,053,269, compared to that, the increase in coconut oil sales income by Rs.497,991,739 was mainly due to this growth.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Management had not review the useful life of the property, plant and equipment which was fully depreciated and already in use at Rs.43,068,294.	Cars have been revalued. The land has been referred to the Valuation Department. Arrangements have been made for the remaining assets to be revalued step by step in the future.	The effective life of the assets should be reviewed and necessary adjustments should be made in the accounts.

### 3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The land area of 12 acres 3 perches 8.77 belonging to BCC Company was valued at Rs.8,195 million in the year 2013 and the same value was stated under land in the statement of financial position of the year under review. By Cabinet Decision No. 15/1874/702/010-VII dated December 17, 2015 and Cabinet Decision No. 16/0597/731/009-I dated April 20, 2016, a 6-acre portion of this land was allocated for the construction of Colombo Court Square. Although it had been handed over to the Ministry in writing, the company had not taken actions to assess the relevant land and get compensation.	By the decision of the Cabinet, a part of 06 acres of the total land was taken over to the Ministry of Justice through the Colombo District Secretary for the construction of the court square in the year 2019. The assessment work required to provide compensation is being carried out and the assessment value related to the year 2013 was included in the accounting report of the financial year 2021/2022. Necessary steps are being taken to get compensation.	Action should be taken to expeditiously complete the activities relating to obtaining compensation.
(b) There were 32 warehouses of 111,310 square feet and 4 oil tanks with a capacity of 3,600 metric tons of oil in the company's premises. These warehouses were rented for Rs.55 to Rs.70 per square foot and a	Due to the bad economic situation in the country, there is a crisis in running businesses, so there is a problematic situation regarding the provision of warehouses.	Action should be taken to increase income.

warehouse of 2,864 square feet was not rented for more than a year. These warehouses in the premises of the company with high commercial value had to be given at a low price due to lack of proper repair. Although the company has planned to repair all these warehouses under modern facilities, a lot of expenses have to be incurred for this.

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Under the program of restoration and restructuring of the B.C.C. Company, as per the decision of the Council of Ministers, the site of C/S Continental Lanka (Pvt.) factory located in the Investment Processing Zone of Vatupitiwala with an area of 03 acres was given to B.C.C. on March 26, 2012. Also, in the year 2012, the machinery of the soap production plant in the head office of the company was moved to the Vatupitiwala Investment Board site and installed, but it remained unused and idle from the date of installation until the date of audit.	Although the production of soap noodles was done here once, its cost was also very high. Also, a large capacity boiler belonging to the Continental Lanka (pvt) factory that was located in that area is installed in the plant. Therefore, the cost of fuel is very high.	Appropriate action should be taken for unusable machines.
(b) 02 vehicles received from the Ministry of State Enterprise Development and 03 revalued vehicles owned by the company and one non revalued forklift were also parked in the vehicle yard of the company premises due to not being in a suitable condition for running for a period of 02 to 04 years.	The two vehicles received from the ministry will be handed over to the ministry in the future. The Ministry has informed to install a new engine or repair the engine for the double cab. The management has decided to proceed with evacuations of the remaining vehicles.	These vehicles should be repaired or scrapped.

### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
During the restructuring of the company in the year 2006, according to Management Services Department Circular No. 30 dated September 22, 2006, salaries were set and paid in each salary step, but the recruitment procedure for the relevant positions as well as the staff were not approved by the Management Services Department.	In order to maintain the essential operations of the company, the recruitment has been limited to a maximum of 57 as required by the business activities of the company at the respective times and minor changes in the positions have been made according to the needs of the company.	Action should be taken to prepare a scheme of recruitment and obtain approval of the Department of Management Services.

As on March 31, 2022, 44 permanent officers and 50 officers were employed as 06 officers on contract basis and for the year under review Rs. 34,687,639 as employee salaries and wages and between 15 and 29 employees for the duties of the company through manpower supply. Rs. 9,081,507 had been attached and paid for it.

In the year 2022, the approved staffing and recruitment procedures for the institution have been prepared and forwarded to the Department of Management Services for approval with the approval of the Board of Directors and the recommendations of the Ministry.

**4. Accountability and Good Governance**

**4.1 Annual Action Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The progress report was not prepared to clearly identify the expected goals and the physical and financial progress achieved and 03 out of 06 activities were not carried out.	According to the action plan, Although 06 main action items have been mentioned and due to the covid epidemic situation in the country, the activities could not be carried out as only a limited number of employees had to be brought in to carry out their duties.	Action should be taken according to the plan.