

## Transaction Report of Lanka Building Materials Corporation Limited - 2021

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The audit of the operations of the Lanka Building Materials Corporation Limited (“Company”) for the year ended 31 December 2021, 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 and the National Audit Act No. 19 of 2018 read in conjunction with the Companies Act No.07 of 2007. The financial statements for the years from 2018 to 2022 to be submitted in terms of Section 150 (1) of the Companies Act No.07 of 2007 had not been submitted even by 25 March 2023. My observations on the operations of the Company which are required to be presented to Parliament in terms of Section 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### 1. Financial Statements

#### 1.1 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 Financial Reporting Standards for Small and Medium Enterprises (SLFRS for SMEs) 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.

#### 1.2 Non-presentation of Financial Statements

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>Although the annual financial statements and draft annual reports should be submitted to the Auditor General within 60 days after the expiration of the financial year as per Section 6.5.1 of the Public Enterprise Circular No. PED / 12 dated 02 June 2003 issued by the Department of Public Enterprises, the Lanka Building Materials Corporation Limited had not submitted its financial statements related to the years 2018 to 2022 even by 25 March 2023.</p> <p>Financial statements were not submitted indicating that the computer server used by the company was disabled due to a virus attack in 2019, and due to the fact that data was not stored in backups at that time, there was no information required to prepare the accounts. A complaint was made to the Criminal Investigation Department on 28 April 2022 in this regard based on the orders of the Committee on Public Enterprises held on 19 April 2022, but the current situation in this regard</p>	<p>No comments were presented.</p>	<p>Action should be taken to submit financial statements within 60 days as per the circular.</p>

was not submitted for audit.

## **2. Operational Review**

### **2.1 Internal Control**

It was observed that the company's internal control systems in the areas of purchase and sales are very weak. The following observations are made in this regard.

#### **2.1.1 Purchase and Sales of Goods**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) In the year 2021, the company had purchased iron, cement, asbestos, tiles and other raw materials worth Rs. 2,052,508,630, but while making those purchases, it had not followed other proper procurement guidelines including calling quotation from registered suppliers	No comments.	That procurement for the institution should be done in accordance with the Government procurement guidelines dated 25 January 2006.
(b) In order to confirm the correctness of a purchase of goods, the documents such as goods order notes, goods received notes etc. should be attached with the relevant payment voucher, but those documents were not attached to the vouchers to confirm the correctness of the payments.	No comments.	That all the necessary supporting documents must be attached to the payment voucher to verify the correctness of the payment.
(c) In case of non-receipt of correct quantity of goods and specified goods mentioned in the purchase orders and suppliers' invoices, the goods should be rejected immediately. However, according to a sample check, goods worth Rs.1,446,908 were rejected during the receipt of goods at Sangharaja Mawatha No. 05 warehouse and showroom, but the goods had already been paid for.	No comments.	That payment for purchases should be made after deducting the cost of goods to be rejected.

(d) Action had not been taken to submit information related to sales on credit and cash sales in the year 2021 to the audit until 28 February 2023. It was observed that this was caused by not introducing an internal control with a system to bring the sales invoices to the head office at the right time in the regional sales centers or a system to enter information into the computer system by the regional offices.	No comments.	That good and adequate internal control system should be introduced so that regional sales can also be entered into the computer system immediately.
(e) The company did not have a product pricing policy and it was observed that the same product item was sold to buyers at different prices in the year 2021.	No comments.	As the company is a major supplier of building materials, a formal pricing policy should be developed.
(f) 23 sales invoices amounting to Rs.84,747,128 in the year 2021 and 22 sales invoices amounting to Rs.79,199,680 in the year 2022 totaling 45 sales invoices amounting to Rs.163,946,808 had been cancelled. However, it was not possible to ascertain whether the goods ordered to supply under the canceled sales invoices were received or not, as the goods purchased to supply those invoices were directly supplied to the respective worksites. Also, if the goods were supplied, the evidence confirming that the goods supplied were the same as mentioned in the order and the evidence confirming that money was not paid for these orders were not submitted to the audit.	No comments.	That proper monitoring should be maintained to check as to whether the material has been supplied even if the invoice is cancelled.

## 2.2 Accounts Receivables and Payables

Audit Observation	Comments of the Management	Recommendation
(a) Confirmations and updated age analysis regarding the receivable and payable balances as at 31 December 2021 was not submitted to the audit. According to the information submitted, as on 28 February 2022, the total receivables was Rs.900,230,005 and total liabilities to external parties were Rs.2,715,100,080	No comments.	That management should introduce measures to verify and promptly settle receivables and payable balances as this may adversely affect the company's going concern.

(b) Due to non-payment of employee provident funds from January 2004 to December 2013, a surcharge of Rs. 3,982,512 was due to be paid based on court orders. It was observed that a total of Rs.2,250,000 had been paid by 31 December 2021 at Rs.50,000 monthly and a further balance of Rs.1,732,512 was to be paid.	No comments.	That according to the Employee Provident Fund Act No. 15 of 1958, contributions and surcharges should be paid in due course.
(c) The company had to pay a surcharge of Rs.79,191 in the year under review on a court order due to delay in payment of gratuity due to an officer before the due date i.e. 16 June 2006.	No comments.	Action should be taken to pay the gratuity without delay according to the Gratuity Act No. 12 of 1983
(d) As per Cabinet Decision No. අමුණ/07/1625/342/021 dated 27 September 2007, an advance of Rs.50 million had been received by the Company on 22 February 2008 for the transfer of a plot of 100 perches from a land belonging to Lanka Building Materials Corporation located at Sri Sangharaja Mawatha, Colombo 12 to the Inland Revenue Department.  The handover was not completed until the year 2012 and again the Cabinet Decision No. 12/0446/540/005 dated 07 May 2012 had canceled the above Cabinet Decision dated 27 September 2007 and the advance amount should have been returned. However, the company had not settled any amount even on February 28, 2023.	No comments.	That arrangements should be made to repay the advance received.

### 2.3 Long term and Short term loans

Audit Observation	Comments of the Management	Recommendation
(a) In order to meet working capital requirements, the company had obtained a short-term loan of 150 million rupees from the People's Bank on 03 occasions during the period from 02 March 2017 to 10 April 2018. According to condition number 07 included in the loan	No comments.	That the management is responsible for not taking action to settle the loan by utilizing the loan money as per the terms of the loan

agreement, it should be confirmed that the obtained loan was used for the intended purpose, but regardless of the purpose of obtaining this loan, it was observed that this loan amount was used for other expenses including administrative expenses such as salary payments, bonus payments of the company.

agreement entered into.

However, since the company had failed to settle this loan as scheduled, it was observed that the total outstanding amount with the loan amount and accrued interest on July 13, 2021 was Rs.185,336,680 and the penalty to be paid for that was Rs.14,463,658.

(b) Bank of Ceylon granted a loan of Rs.500mn to the company on 23 October 2018 with the Cabinet approval No. අමස/18/0504/736/00 dated 28 March 2018 on a treasury guarantee to enable the company to overcome financial difficulties and become a strong stakeholder in the construction industry. Out of that, an amount of Rs.199,052,329 that was to be charged to the Bank of Ceylon was deducted and the remaining amount of Rs.301,377,920 was given to the institution. About 35 percent or Rs.105,977,098 of that amount was spent on employee salary payments, employee provident / trust fund payments, loan interest payments, bonus payments, settlement of overdrafts, purchases of fixed assets, which were expenses contrary to the purpose of obtaining loans. The company had failed to settle the loan amount of Rs.500 million according to the agreed conditions and it was observed that the outstanding loan interest amount as of 31 December 2021 is Rs.102,408,283.

No comments.

That management should take steps to comply with the terms of the loan agreement.

## 2.4 Procurement Management

### Audit Observation

### Comments of the Management

### Recommendation

Limited quotations were invited from 05 organizations in the year under review, for the

No comments.

That procurement should be done in

purchase of a new computer system due to the inefficiency of the software system being used by the company. The specifications for this purpose had been prepared by the institute, but the institute had not prepared and approved a total cost estimate according to sections 4.3 and 4.3.2 of the Government Procurement Guidelines. As per section 5.4.4, no security has been obtained in advance payment. According to section 8.1, the report of the technical evaluation committee should be examined and the decision of the procurement committee should be notified, but an advance of Rs.982,350 was paid on October 12, 2021 with the approval of the General Manager without complying with those sections.

accordance with procurement guidelines.

## 2.5 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
(a) Although a sum of Rs.2,419,216,903 has been received as sales revenue till September 2022 from the tile project which started in September 2021, the value added tax amount of Rs.55,889,608 collected for that under the Value Added Tax Act No. 14 of 2002 was not remitted to the Inland Revenue Department.	No comments.	That the tax collected under the Value Added Tax Act should be immediately remitted to the Inland Revenue Department.
(b) The company had 21 plots of land as at 31 December 2021, out of which the company did not have information about the amount of Rates and taxes payable on 31 December 2021 for the lands other than the lands belonging to Colombo and Moratuwa Municipalities. According to the letter No. නානා/වරි/සංස්ථා/25/2022 of the Accountant (Taxation) of the Municipal Treasurer's Department of the Colombo Municipal Council dated 25 October 2022, the amount of Rates and Taxes and fines payable by the company to the Colombo Municipal Council on 31 December 2021 is Rs.23,338,598 and in that, there was Rs.21,342,758 to be paid for the years before 2021 and Rs.1,995,840 to be paid for the year 2021.	No comments.	That the details of the Rates and taxes to be paid should be inquired from the relevant local authorities and arranged to be paid.
Furthermore, according to the information presented by the Moratuwa Municipal Council, the Rates and Taxes balance payable to the Moratuwa Municipal	No comments.	That the Rates and Taxes due should be paid within the relevant

Council as at 31 December 2021 was Rs.1,345,806 and in this the Rates and Taxes payable before the year 2021 was Rs. 1,164,771.

period.

## 2.6 Non-compliance with laws, rules, regulations and management decisions etc.

Reference to the laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 8.3.3 of the Public Enterprises Circular No. PED 12 dated 02 June 2003	Employees should be paid bonuses based on the fair surplus/profit earned by the company but contrary to this the company had paid an amount of Rs.1,105,000 as bonus for the year out of circular without ascertaining whether it has made profits for 2021.	No comments.	That bonuses are payable only if profits are made in accordance with the circular.
(b) Paragraphs 3.2.6 and 3.2.7 of the Public Finance Circular No. 05/2016 dated 31 March 2016	Although the board of survey reports for each year should be submitted to the Auditor General before June 30 of the following year and it should be notified to the Director of Public Finance prior to 30 June, board of survey reports of assets as at 31 December 2021 relating to the Head office and 16 regional offices had not been submitted for audit.	No comments.	That the annual board of survey should be done in accordance with the circular.
(c) Asset Management Circular No. 01/2017 of the Secretary to the Treasury issued on 28 June 2017.	The company had not submitted information on office equipment and furniture as on 31 December 2021 to the Comptroller General.	No comments.	That action should be taken as per the circular.

## 2.7 Vehicle Utilization

### Audit Observation

### Comments of the Management

### Recommendation

(a) Out of the 18 vehicles owned by the institute, 09 vehicles were not in running condition.	No comments.	That the company should arrange to repair vehicles that are not in running condition of the company to a condition suitable for driving or dispose of them in accordance with section 13.2 of the Public Finance Circular No. 01/2020.
(b) The lorry with vehicle number 227-3173 had been taken out of service since 2014 and was parked and being destroying in the premises due to lack of prompt disposal.	No comments.	That the disposals should be done without delay on the recommendations of the Board of Survey.
(c) An agreement was reached on 23 July 2019 and a sum of Rs. 512,375 had been paid in advance to the client institution for repair of cab No. 251 – 9413, but it was parked in the institution premises without repair. The management had not taken steps to identify the responsible officers and recover the loss.	No comments.	That the responsible officers should take action to recover the advance paid or to repair if it is in a repairable condition.
(d) The driver had stated that the car number KH-5590 which costing Rs.05 million met with an accident on 22 January 2022 while coming from Colombo to Giriulla, but the duty requirement of the journey was not disclosed. And a related police report was not submitted to the audit. The vehicle was completely damaged in the accident and although almost a year had passed since the accident, it was not possible to get the insurance compensation until the audited date of 31 December 2022 due to non-submission of the necessary documents to get the insurance compensation.	No comments.	That the problematic situations that caused the delay in the submission of documents should be resolved and the insurance compensation should be recovered promptly.

## 2.8 Improper Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Approval had been given for the repairs and modernization works to the Official Residence of the Prime Minister / Fifth Executive President by the Cabinet Decision No. අමප/21/1779/302/002/-1 dated 26 October 2021 to Cabinet	No comments.	Expenditure reports should be prepared accurately and arrangements should be made to collect



Memorandum No. 21/0084/302/002 submitted by the Prime Minister on 27 September 2021. Although the company had provided building materials for these activities, the company had not been given a preliminary estimate, a list of required materials, and details of the required quantities. Also, there was no agreement entered into including terms of supply of goods, payment of money etc. According to the expenditure report submitted by the company for the audit, the value of the materials provided by the company by 23 November 2022 for the repair work of the Official Residence was Rs. 267,354,550 in relation to repair and maintenance. It was also observed that the RS.9,976,896 worth of air conditioners, gas lines, Wi-Fi systems and electricity which does not fall in to category of building material supplies by the company were also supplied . As per audit observations , expenditure of Rs. 10,391,979 was not included in the total expenditure. As at 23 March 2023, the amount settled by the Prime Minister's Office was only Rs.177,122,701 and accordingly the amount to be further recovered was Rs.90,231,848.

Furthermore, it was decided to obtain the consulting services from the company regarding the architectural, civil engineering and interior design required for the above repairs and maintenance, but the company had engaged an external person to provide such services, but no procurement procedure was followed in selecting that private service provider. A sum of Rs.13,073,187 had been spent for it as of 30 November 2022, but the amount reimbursed by the Prime Minister's Office was only Rs.10,000,000 and the amount to be further reimbursed was Rs.3,073,187.

- (b) Approvals for purchases of goods related to these repairs and maintenance, goods order forms, goods purchase invoices, goods receipts, had not attached to the payment vouchers and the relevant credit invoices and reference numbers of the relevant purchase order were not submitted for audit to confirm whether the goods purchased by the company are properly delivered to the relevant parties and whether the dividends due from the

receivables on time.

Action should be taken to follow procurement guidelines and contract with customers while purchasing.

No comments.

That supporting documents should be maintained in a traceable manner in relation to purchases of goods.

supply of goods to the external parties are properly received.

## 2.9 Transactions contrary to the Objectives

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>With the aim of reducing the shortage of tiles in the market due to the restriction of imports due to the policy decisions of the government, the permission to import ceramic tiles was given only to this company by the Extraordinary Gazette No. 2231/18 dated 11 June 2021. However, as the company did not have the financial strength to do so, it had entered into agreements with 11 companies engaged in the business, selected through public advertisement, to import ceramic tiles under the name “BMC” and sell them at BMC stores with 10% of the profits going to the company. Accordingly, 460 tile containers with a value of Rs. 868,121,891 (US\$ 3,202,828) were imported between the period of September 2021 and September 2022. Although a five-member committee has been appointed with the approval of the State Ministry of Housing and Construction and Building Materials Industry Promotion to monitor, supervise and guide the import and distribution of these ceramic tiles, It was observed that due to the lack of proper supervision of the relevant committee, the shortage of tiles in the market was not reduced by importing and it did not lead to the good of the people and the small scale construction contractors, while only a limited part of the large scale businessmen in the construction industry benefited from this.</p>	<p>No comments.</p>	<p>It should act in accordance with the objectives of the Gazette.</p>

## 2.10 Performance

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>The company's vision was "To be the priority</p>	<p>No comments.</p>	<p>That it is the</p>

in supplying high quality building materials and equipment at a competitive price in accordance with the standard and to build maximum credibility in the Sri Lankan community by fulfilling social responsibilities as a public institution". However, at present the modernized showroom and branch offices maintained at the head office premises was engaged in activities such as selling building materials and equipment purchased from private building material suppliers with a profit margin. Thus, it was observed that the objectives of the establishment of the company and the vision of the company were not covered. Also, during the period of 05 years from 2013 to 2017 when the financial statements were presented, the net loss had grown from Rs.15 million to Rs.86 million.

responsibility of the management to manage the activities efficiently and effectively according to the goals and vision of the company.

## 2.11 Identified Losses

### Audit Observation

As of 31 December 2021, 06 court cases were pending against the company and as of 30 June 2022, the company had to pay an amount of Rs.21,762,385 based on court orders.

### Comments of the Management

No comments.

### Recommendation

That the management should work to manage the affairs of the company so that the legal proceedings against the company are minimized.

## 2.12 Assets Management

### Audit Observation

- (a) According to the Land Acquisition Act No. 28 of 1964, an extent of 1.1157 hectares and 3.2 roods of government land had been handed over to the company on 09 September 1974. According to the certificate assigned to the land concerned company, this land should not be used for any purpose other than the acquired work without the proper permission of the concerned Ministry, contrary to that, 03 lots of lands containing

### Comments of the Management

No comments.

### Recommendation

That land should not be sold without formal approval and care should be taken to properly manage the company's assets.

04 roods, 31.4 perches of the relevant land were sold to HDFC Real Estate Development Limited on 14 November 2005, 24 January 2007 and 14 August 2005 for Rs.222.50 million with the approval of the board of directors. Nevertheless, the Colombo District Court had given a judgment to release the ownership of the land by paying an amount of Rs.359.32 million to the Housing Development Finance Corporation before 31 January 2012, but the company had not paid the same amount and recovered the ownership of the land.

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| (b) | According to the information submitted by the company to the audit, it was observed that the company had assigned 100 perches of land owned by the company at No. 541 Sri Sangharaja Mawatha, Colombo 12 to the Bank of Ceylon on 09 November 1998 for 70 million rupees as a guarantee. Later, on 23 October 2018, the company had set off an amount of Rs. 199,052,329 to be paid along with the overdraft balance on that day, including the amount of 70 million rupees and the interest amount, from the 500 million rupees loan obtained from the Bank of Ceylon under the treasury guarantee. Accordingly, the land should be repossessed after paying the stamp duty of Rs. 5,383,174 which was related to the value of the deed prepared by the bank for the re-transfer of the land, but by 31st December 2021, the repossession was not done even though a period of 03 years had passed. | No comments. | That the management should take immediate action to take over the ownership of the land by duly paying the relevant stamp duty. |
| (c) | A land containing 01 Rood and 2.8 Perches at No. 417 / A, Kade Street East, Railway Station Road, Matara is being used unlawfully by the National Housing Development Authority for many years without paying any rent and the Corporation had not taken any action in this regard.  | No comments. | That the management as a public institution should work together to solve the problem or take legal action.                     |
| (d) | It was observed that title deeds have not been obtained till 31 December 2022 for 03 acres, 03 roods, 37 perches of lands, resorts,  | No comments. | That the company should take action to obtain the title deeds, in respect of  |

	warehouses and 05 houses under the company.		the property in question.
(e)	There were no survey plans for 07 lands and 05 houses containing 04 Acres, 03 roods and 29.1 Perches.	No comments.	That action should be taken to prepare survey plans for lands and buildings belonging to the company.
(f)	Although approval has been granted by the Cabinet Decision No. අමස/19/2192/122/076 dated 21 August 2019 relating to the transfer of the land at No. 549/A, Borupana, Moratuwa, to transfer the ownership of the land to the Corporation, the Corporation had not so far taken action to write the deed and transfer the ownership of the land.	No comments.	That the company should prepare and register the title deed.
(g)	Company owned land with extent of 01 rood 31.6 Perches land in Jaffna, Uppukulam Karayi Kunguniyar, Houses in pandugama Anuradhapura, Nuwaraeliya Bambara Kale Building, Embilipitiya Yodhagama 02 houses remained idle for several years.  Furthermore, a building owned by the company that was rented out for the Matara Lanka Sathosa outlet had been idle for more than 02 years since July 2019 and no steps had been taken to rent it out again.	No comments.	That the existing resources should be used efficiently.
(h)	7 warehouse premises numbered 1 to 7 in the corporation premises at No. 541, Sri Sangharaja Mawatha were given on rent for the services of the National Lotteries Board. It was observed that the warehouse was rented out until 2021 at the same price given in 2015 without renewing the agreement. Also, the National Lotteries Board had not paid the electricity bills of Rs.60,382 due for these stores from July 2018 to January 2021.	No comments.	That, assets should be assessed and formally contracted to rent the premises.
(i)	A warehouse consisting of 1480 square feet owned by the Corporation at No. 541 Sri Sangharaja Mawatha had been given to a	No comments.	That the stores should be rented out by valuating the assets and updating

private party for Rs.66,600 per month at the rate of Rs.45 per square foot in April 2015. The agreement period had ended on 09 April 2017 and without entering into a new agreement, the warehouse had been given back to the same person until 31 December 2022 for the same rental amount as agreed according to the original agreement.

the rental amount accordingly.

- (j) The building at Ratmalana Maligawa Road, which was given to the National Youth Corps for a monthly rent of Rs.164,850, has been iled since October 2019 and arrangements have not been made to collect Rs. 10,532 from that institute in relation to the electricity and water bill.

No comments.

That management should focus on the utilization of idled assets.

### 2.13 Cash Management

#### Audit Observation

#### Comments of the Management

#### Recommendation

- (a) The company maintains 12 bank accounts. However, cash books had not been maintained indicating correct opening and closing balances for the year 2021 and bank reconciliation statements had not been prepared. According to the bank account balance confirmations, the debit balance of 05 bank accounts was Rs.44,544,272 and the credit balance of 04 accounts was Rs.209,909,046. Balance confirmations of 03 bank accounts were not submitted. Due to this, it was observed that the company has not implemented sufficient control over money.

No comments.

That the management should immediately arrange to prepare the cash books and bank reconciliations monthly based on a more accurately calculated opening balance and that it is their responsibility in terms of financial management.

### 3. Human Resource Management

#### Audit Observation

#### Comments of the Management

#### Recommendation

The institution had not taken action in accordance with the following sections of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

No comments.

Action should be taken as per circular instructions.

- i. As per section 9.2(b) action had not been taken to decide the required staff for the

company and obtain approvals for that.

- ii. As per section 9.3.1(i) the company did not have a approved recruitment procedure of the Department of Management Services.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

###### **Audit Observation**

Although an approved annual budget should be submitted in accordance with Section 5.1 of the Public Enterprise Circular No. PED 12 dated 02 June 2003, action had not been taken accordingly

###### **Comments of the Management**

No comments.

###### **Recommendation**

That an annual budget should be prepared in accordance with the circular.

##### **4.2 Corporate Plan**

###### **Audit Observation**

In terms of Section 5.1 of the Public Enterprise Circular No. PED 12 dated 02 June 2003, although a Corporate Plan and Corresponding Action Plan for a period of not less than 03 years should be prepared to carry out the vision and mission of the Corporation and the approval of the Board of Directors should be obtained 15 days before the commencement of each financial year, it had not been so done.

###### **Comments of the Management**

No comments.

###### **Recommendation**

Action should be taken as per circular instructions.